

# *Staff Paper*

## Report of the Lansing Financial Health Team

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## **I. INTRODUCTION**

### **City of Lansing Financial Health Team**

#### **MISSION**

In an era of economic turmoil that has left some of Michigan's largest cities on the brink of bankruptcy, the city of Lansing remains in a relatively strong financial position that will allow it to perform the essential functions of city government both in the short and long term. However, to keep the city on sound financial footing into the future and to preserve and enhance the community's quality of life, Mayor Virg Bernero's Financial Health Team will conduct a comprehensive review of the city's financial health and make recommendations for strengthening the city's financial position now and in the future.

#### **FINANCIAL HEALTH TEAM MEMBERS**

David Hollister, Chair	Prima Civitas Foundation
Mark Alley	Emergent Biosolutions
Jerry Ambrose	City of Flint
John Brown	Jackson National Life
James Butler	MSHDA
Paula Cunningham	Capitol National Bank
Scott Dedic	United Auto Workers Region 1-C
Robert Emerson	McAlvey, Merchant and Associates
Jim Herbert	Neogen Corporation
Chris Holman	Greater Lansing Business Monthly
Dr. Rev. Melvin T. Jones	Union Missionary Baptist Church
Sergio Keck	Lansing School District
Steven C. Liedel	Dykema Law Firm
Joe Ruth	Sparrow Health System
Heather Shawa-DeCook	Demmer Corporation
Ron Simon	Auto-Owners Insurance
Robert Swanson	Michigan Civil Service Commission
Lisa Webb-Sharpe	Lansing Community College

#### **STAFF**

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Randy Hannan	Chief of Staff, City of Lansing
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This staff paper reflects the deliberations of the Lansing Financial Health Team. This Team was appointed by Mayor Virg Bernero of the city of Lansing in the fall of 2012. The city of Lansing has experienced several years of ongoing budgetary challenges, having made reductions of over \$60 million in its General Fund budget since 2006. Due to continued property value declines, the FY 2013-2014 budget process was shaping up to be another year of budgetary challenges. In this environment of ongoing fiscal stress experienced by the City and other municipalities, the mayor felt it was critical for a group of outside experts to provide him with a roadmap for changes and reforms to city operations, services and financial structure.

The Team's purpose then was to assess the city of Lansing's financial conditions and propose reforms and changes that will ensure the short and long term solvency of the city government. In order to accomplish this purpose, the Team set up three subcommittees including short term solutions, long term solutions and regional solutions. Each group met and deliberated in order to bring forth proposed reforms. This staff paper reflects those deliberations and recommendations. The Team presents this plan as a route for city government to achieve short and long term solvency as well as strengthen the regional economy.

City governments in Michigan have all been facing significant challenges throughout the last decade. These challenges include falling property values and associated tax revenues and falling state aid plus the rising cost of employee compensation, particularly health care costs. This combination of falling or stagnant revenues and higher costs has meant structural deficits for many communities including the city of Lansing. Tough choices have been made including pay cuts and layoffs, deferred capital projects and fewer city services. Now, even these solutions may not be enough and this report focuses its attention on even more broad-based and innovative solutions to the problem of municipal structural deficits in Michigan.

All of these challenges exist within the context of a broken model of municipal finance. For many decades, the state of Michigan has imposed a system of municipal finance that relied heavily on property taxes and state revenue sharing of the state sales tax. Because of state revenue sharing, Michigan municipalities are limited in the types of revenues they receive, the theory being that revenue sharing obviates the need for revenue sources like local sales tax. This model worked relatively well during the heyday of the auto industry. However, a number of factors converged to begin to erode this.

The major factors behind the erosion were the restraints put in place around the property tax system, including the Headlee Amendment to the Michigan Constitution and then later so-called Proposal A. Both of these put major restrictions on the growth of the property tax base and property tax revenues. A second and more recent factor has been the absolute decline in state revenue sharing. As the economy ground to a halt in the first decade of the 21<sup>st</sup> century, state revenue sharing was cut to address state budget deficits. These revenue forces were playing out in concert with declining population and high fixed costs for legacy infrastructure in major central cities. This combination has led to a broken system of municipal finance, which needs to

be addressed by state policy makers. New tools are needed for municipalities to function in the 21<sup>st</sup> century.

#### A New Model For Government

Given the financial challenges facing the city of Lansing, a new model is needed to describe how city government will function in the 21<sup>st</sup> century, given the existing and likely future resource constraints. This new model envisions a city workforce wrapped in the best technology that enables services to be delivered at a high level of efficiency and effectiveness. This new model is based on the likelihood that city governments will likely have a smaller workforce and continue to face financial pressures.

The existing city government model presupposes a specialized and labor-intensive service delivery system. Each service delivery area requires trained specialists in their field, such as building inspectors, code compliance officers, police officers, firefighters, finance officials and accountants, and many other positions. In the past, city governments could not offer the wages that were competitive with the private sector, including items such as profit sharing, bonuses and other private sector perks. Instead, the public sector offered employees good benefits at low cost. This tradeoff made sense for much of the 20<sup>th</sup> century and helped cities maintain a high quality and productive workforce. This combination of a specialized workforce with adequate compensation was a good model for the 20th century, but is now under threat in the 21st century.

Today, this tradeoff is no longer viable. Economic stress and legislative limitations means city governments have a much harder time raising revenues or sustaining revenue growth over any period of time. Even if the local economy improves, revenues will not likely grow at the same pace as costs in any case. A new model imagines that a smaller but more technology and capital intensive service delivery system replaces the current labor intensive system over some period of time.

One example of this innovative strategy is the city of San Francisco and Code for America. Code for America is a non-profit organization that puts young information technology experts in city government to set up new and innovative solutions to existing problems. In San Francisco, the cooperation of these two entities is leading to new citizen engagement apps for smart phones, putting city data in open access systems for citizens to use and learn from, develop standardized data protocols to improve services and implement a Gov 2.0 system in general throughout the city.

What are the benefits of this transition? The major benefit would be a city workforce that can still accomplish the goals of city government, such as maintaining viable neighborhoods and strengthening public safety, while operating with fewer people and lower costs. This does not mean that people will be compensated less. In fact, the city workforce of the future may see more generous wages and salaries. The boundaries between specializations will be broken down as the tools of information technology, networks and social media combine to create new service delivery models. A city employee may in the medium term future not be a police officer, firefighter or code compliance officer but some combination of these positions. The benefits of specialization are that each person is able to become very good at their job. The downside is that the workflow behind these positions ebbs and flows over the day, week, month and year. The

question now is how both new management strategies combined with information technology can provide the benefits of specialization with a flexible and networked workforce.

Such a strategy will directly involve capturing the insights and wisdom of the citizens and businesses that populate a city. While traditional strategies such as neighborhood watch, electoral volunteers and adopt-a-park programs have been used by cities in the past, new technology and social media enable these strategies to be put into hyper drive. Citizens are the eyes and ears of the city where employees are not able to be and are also the primary drivers of what services are needed where and when in a city. Some of these models cannot be anticipated today, but a city government can begin to invest in capital, technology and workforce training that will enable the city to move nimbly in adopting new strategies as they emerge and perhaps even pioneer some of its own strategies.

In 2007, the city of Lansing implemented the CitiStat performance management model. It is now time to revamp and reemphasize that approach to government and in fact expand its scope. This approach promises to provide both lagged and real-time data to government managers as they seek out efficiencies in their operations. Networked citizens are those who can access the government and government services through a variety of channels whether it be the web, smart phones, a library kiosk or Facebook. This reduces the cost of accessing government services to the users.

Technology greatly expands the ability of employees to use the appropriate tools to deliver the right services to clients at the right time. These employees have the ability to move quickly across service areas and address needs as they arise or are identified. This type of transition may take many years for any city government to achieve. However, in the short term, the city may be able to pilot this type of transitional process in specified service areas. This general model of city government informs many of the recommendations proposed in this report.

## **History**

The city of Lansing, Michigan is located in central Michigan primarily in Ingham County with a small portion located in Eaton County. Lansing is the state capital and has a population of 114,297 (as of 2010). The city's larger metropolitan region contains 464,036 people (also as of 2010) and houses industry in healthcare, manufacturing, insurance, banking and education.

The first settlement was established in 1837, near the confluence of the Grand and Red Cedar River. In 1847, the State Legislature voted to move the state capital from Detroit, and the decision for Lansing was approved in December 1847. The name was changed from the original, "Town of Michigan", to Lansing in 1859. It was incorporated by legislative act on February 15, 1859 and named for a New York State town from which most of the early settlers had migrated. The city grew slowly around the state capitol and mills on the Grand River. As the railroads were built, the industry developed and the city began to grow. The city later became an automobile industry powerhouse, beginning with the founding of Olds Motor Vehicle Company in 1897.

When the American auto industry began to decline in 1980s due to the appearance of foreign car production and sales in the United States, the population of Lansing also began to decline.<sup>i ii</sup> The city's population peaked in the 1970's at about 131,403 and is now down to 114,297 as of 2010.

The present charter of the city of Lansing, adopted in 1978, provides for a strong mayor form of government in which the mayor holds most of the city's administrative powers, subject to legislative authority.<sup>iii</sup> The mayor is elected at-large every four years. The city clerk is also elected every four years. The city council consists of eight members, and includes four members elected from the city's four wards, as well as four "at-large" members elected citywide. Lansing is the only state capital that is not also a county seat.<sup>iv</sup>

The major industries in the Lansing's metropolitan region are now government, education, insurance, healthcare, and automobile manufacturing. The main employers are the State of Michigan, Michigan State University, Sparrow Health System, General Motors, Lansing Community College, McLaren-Greater Lansing Hospital, the Lansing School District, Meijer, Auto-Owners Insurance, and Peckham, a vocational rehabilitation organization.

## **II. ECONOMIC AND DEMOGRAPHIC HISTORY**

### **Demographics**

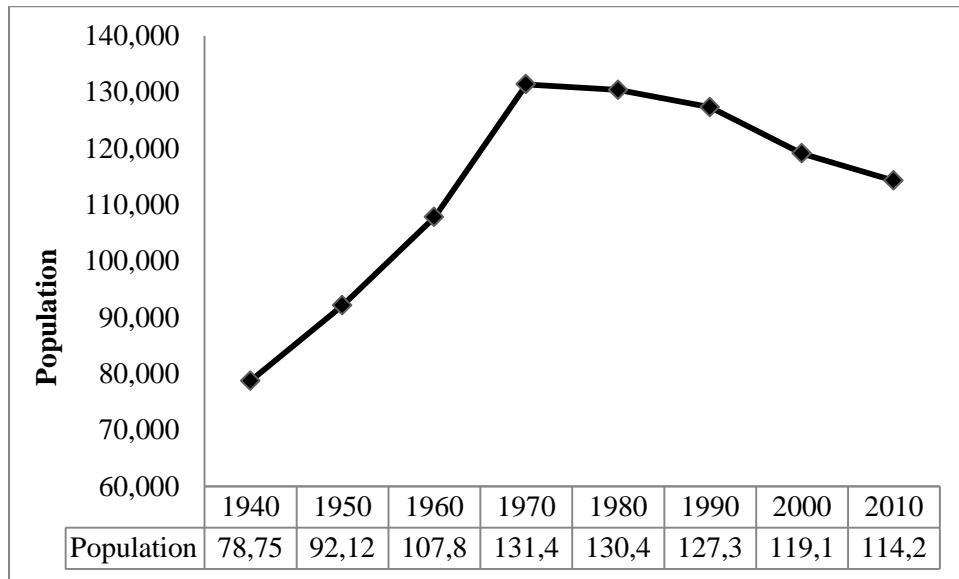
The city of Lansing's population has changed drastically over the past fifty years. In this section we explore the historical changes that have occurred throughout the city and region. These trends will help to predict the city's future revenues and costs and help the city plan for alterations in the size of government to reflect population predictions.

The economic and demographic material presented in this section provides a backdrop for a thorough and comprehensive analysis of the city of Lansing's financial situation. Given population decline, income decline and general stress in the real estate market, we would expect the city government to have experienced some degree of fiscal stress. The question becomes how well did the city respond to this period of fiscal stress and what prognostications can be made regarding the city's fiscal future?

### *Population*

The U.S. Census Bureau reported the fourth decade of double-digit declines in population for the city of Lansing for the 2000s. From 2000 to 2010, the city experienced a decline of 4% in population from 199,128 in 2000 to 114,297 in 2010 (Exhibit II-1). The 1970s, 1980s, and 1990s also saw a population decline of 1%, 2%, and 6% respectively. Previous decades had seen large population increases of 17%, 17%, and 22%.

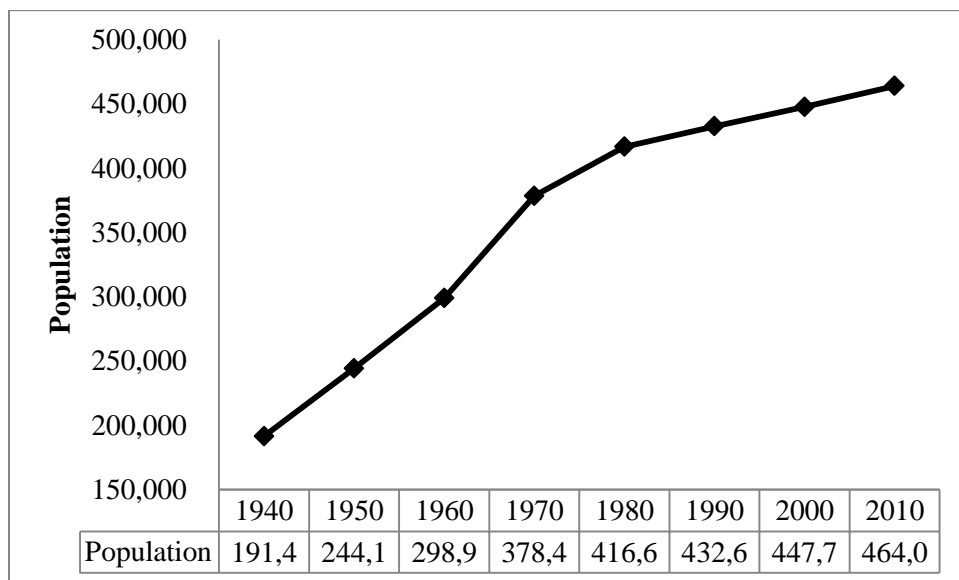
**Exhibit II-1 City Population**



Data source: U. S. Census Bureau

Despite the decline in the city of Lansing's population, the Lansing Metropolitan Statistical Area (MSA) has increased in population each decade since the 1940s (Exhibit II-2). However, this growth has slowed since 1970, when the percent increased changed from 27% in the 1960s to 10% in the 1970s. MSA growth continued to weaken into the 1980s, 1990s, and 2000s, which saw growth rates of 4%, 3%, and 4% respectively.

**Exhibit II-2 Lansing-East Lansing Metropolitan Area Population**

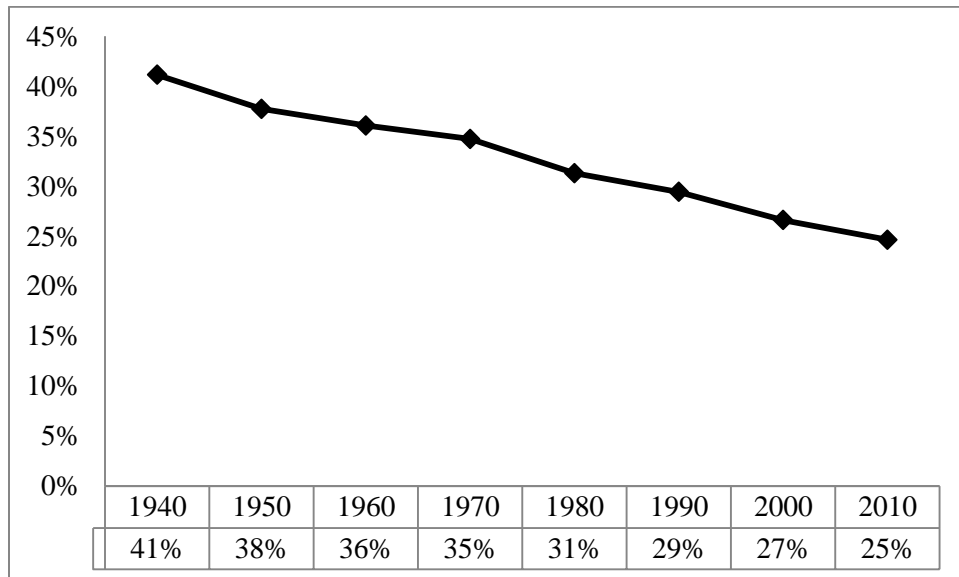


Data source: U. S. Census Bureau



In the 1940s, the city of Lansing contained 41% of the population of the MSA as a whole. By 2010, the number dropped to 25% (Exhibit II-3). This is due to both the city population decline and the MSA population increase.

**Exhibit II-3 City Population as a Percent of MSA**

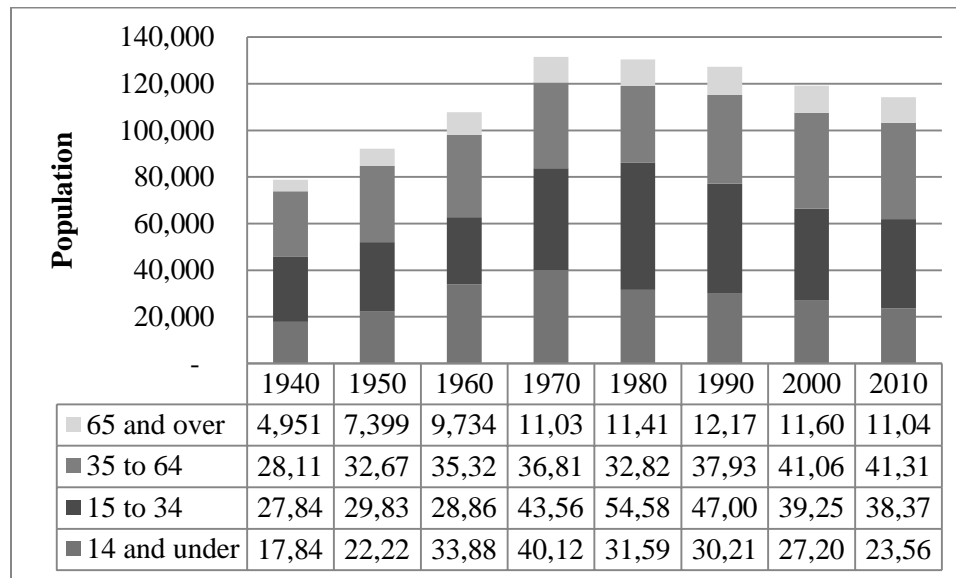


Data source: U. S. Census Bureau

## Population Characteristics

Lansing's population has been aging over the past four decades. Exhibit II-4 shows a breakdown of the number of people by age group in Lansing from 1940 through 2010. Even after the city population began to decline in 1970, the number of people 65 years and over continued to increase until the 2000s. The number of people age 35 to 64 also increased during this time period.

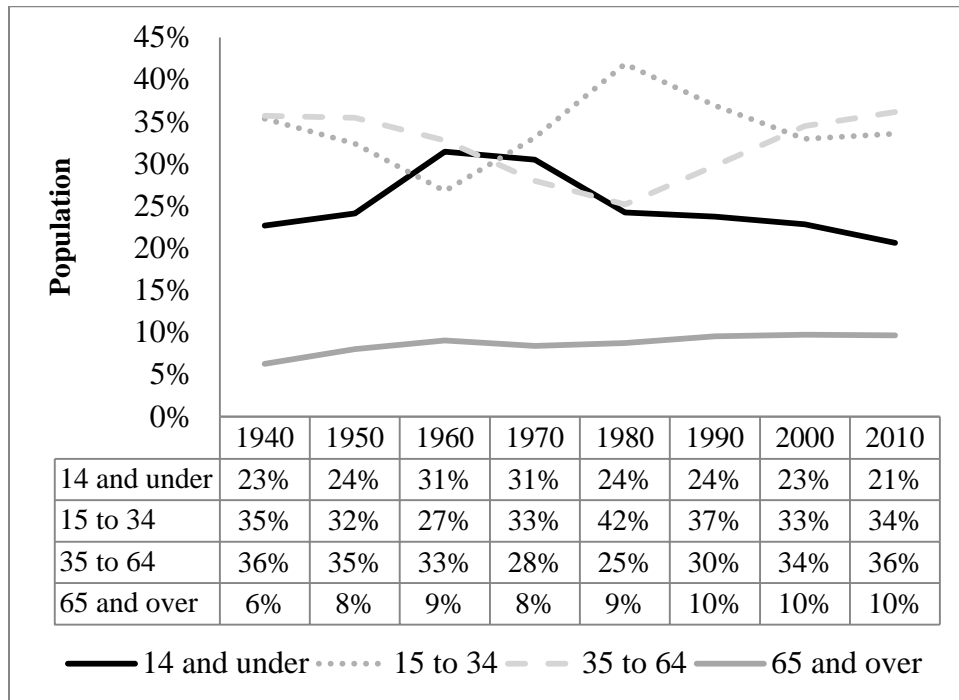
**Exhibit II-4 Age of Population**



Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-5 shows the percent of the population in each category in each year. The percent of the population that is older than 65 has been steadily increasing, but at a slow rate, since the 1970s. The percent of the population between the ages of 35 and 64 reached a minimum around 1980, then increased in the 1980s, 1990s, and 2000s. The percent of the population between the ages of 15 and 34 followed the opposite path where it peaked around 1980 then declined in the 1980s, 1990s, and 2000s. And the percent of the population under the age of 14 peaked around 1960, then declined in the subsequent 6 decades. These changes in demographics may have an impact on the demand for city services over time as the population ages. This could include a greater demand for example for EMS services and older adult recreation programming.

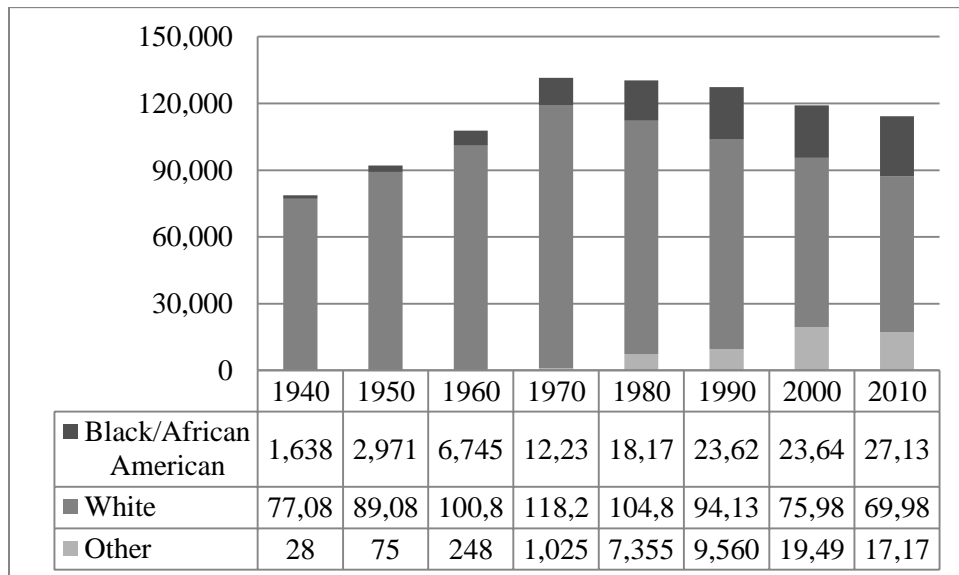
**Exhibit II-5 Age by Percentage of Population**



Data source: U. S. Census Bureau

The racial distribution of the city has also changed since the 1940s as can be seen in Exhibit II-6. The percent of white people in the city went from 97.9% in 1940 to 61.2% in 2010. The city has become more diverse over the last few decades.

**Exhibit II-6 Population by Race**

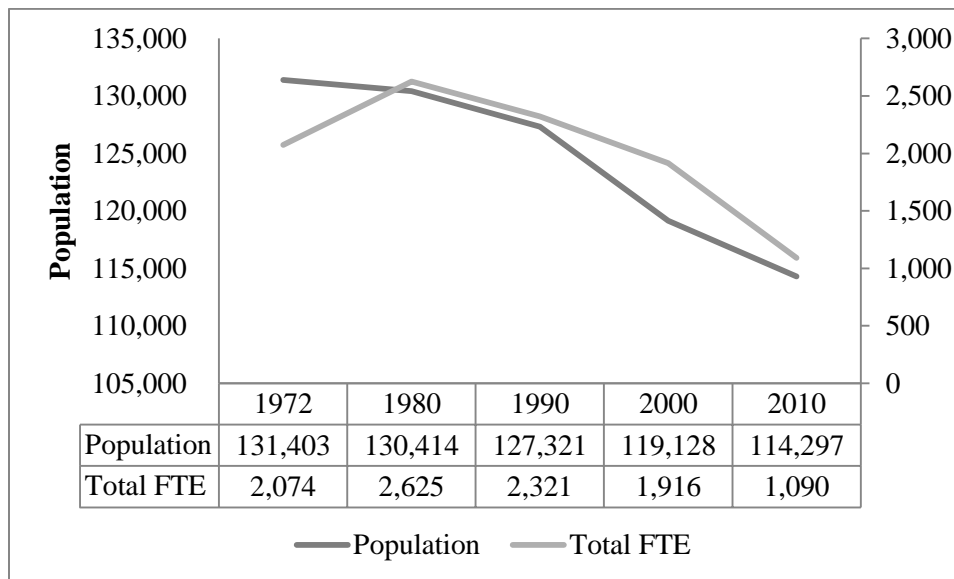


Data source: U. S. Census Bureau

## **City Government Response to Demographic Changes**

As the demographics of a city change, the government must alter its budget to reflect these changes. As the population declines and revenues decrease, the government must spend less money. Exhibit II-7 shows the total population of the city and the total number of full time equivalents city employees. With the exception of the 1970s when the number of employees continued to rise even though the city population was declining, the city government has responded fairly well to population change by reducing its total number of employees. Thus unlike some of its peers, the city of Lansing has managed this transitional period quite well. At the same time, this has meant that potentially fewer city services have been available to the remaining population. Further, fiscal strain remains despite the cutbacks in city personnel as the cost per employee has risen dramatically.

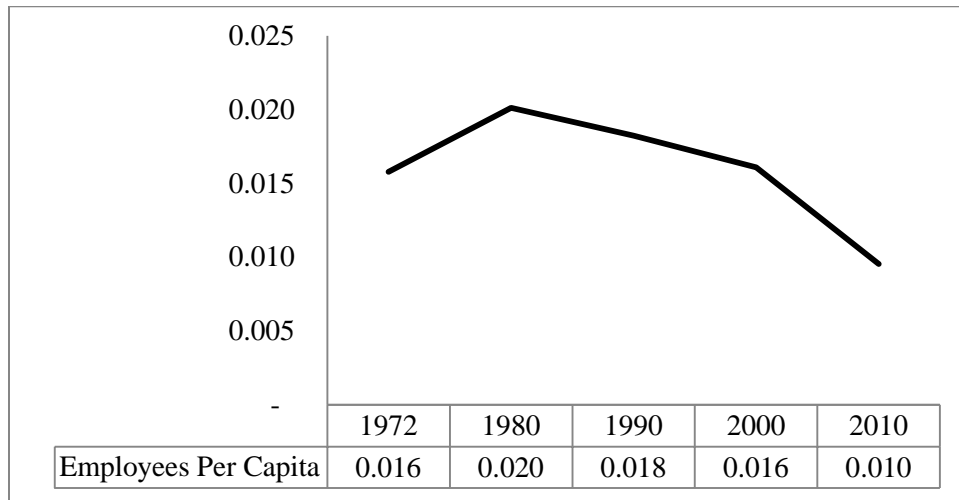
**Exhibit II-7 Number of Employees and Total Population**



Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-8 shows the number of full time equivalent employees per capita from 1972 through 2010. This ratio increased in the 1970s, but then decreased in the 1980s, 1990s, and 2000s, indicating that Lansing has responded well to population decline since the 1980s in terms of number of public employees.

**Exhibit II-8 Full Time Equivalent Employees Per Capita**



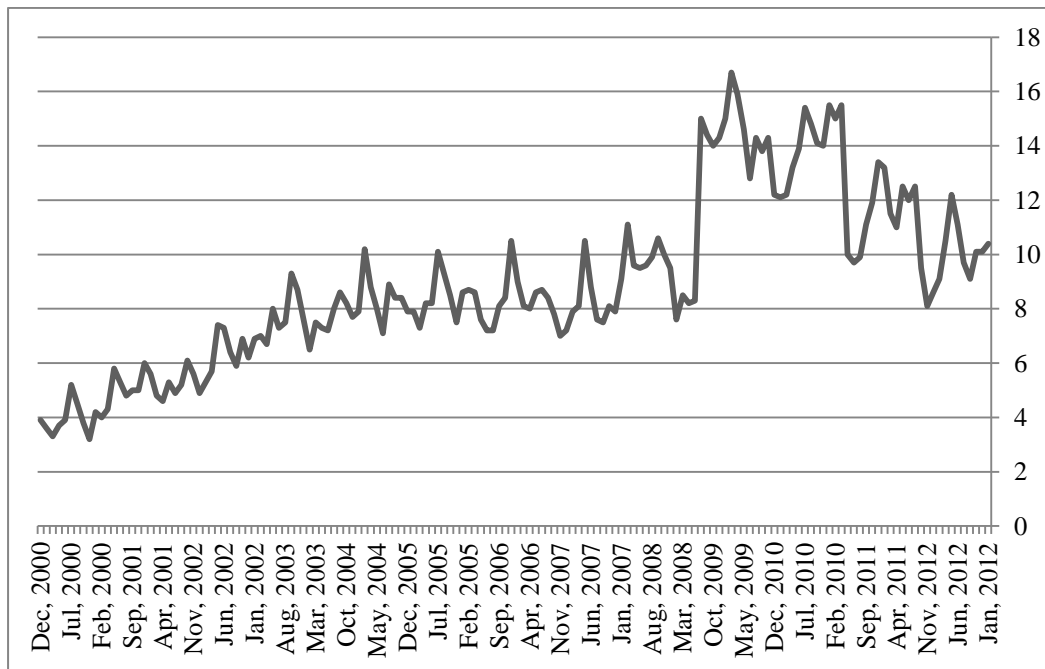
Data source: U. S. Census Bureau

## **Economy**

### *Unemployment and Income*

The city of Lansing's jobless rate is returning to pre-recession levels (Exhibit II-9). City level unemployment for 2012 was at 10%, 11<sup>th</sup> highest in the state. Lansing's jobless rate ranks 5th amongst some benchmark communities (Exhibit II-10).

**Exhibit II-9 Jobless Rate**



Data source: Michigan Department of Technology, Management & Budget

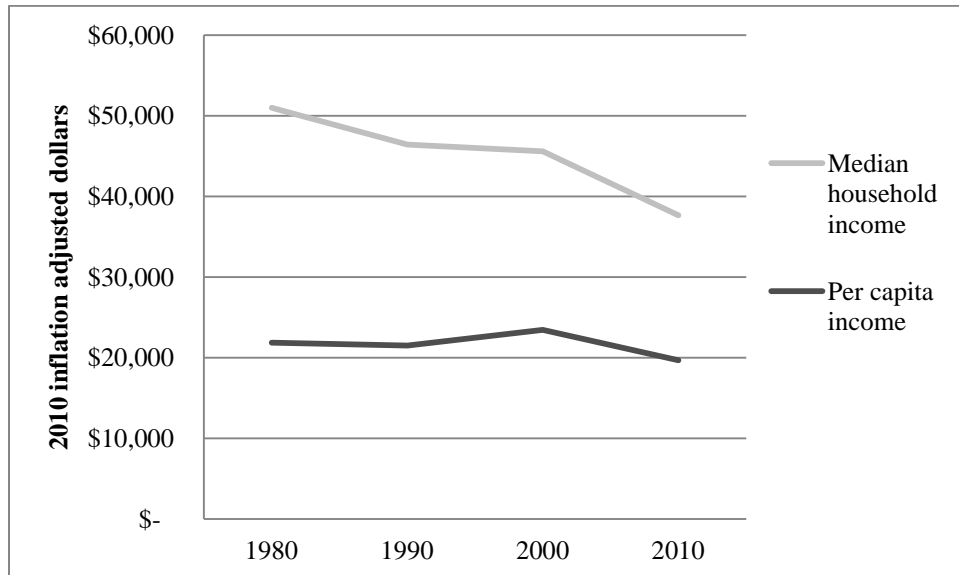
Exhibit II-10 Jobless Rate

<u>Year</u>	<u>Area</u>	<u>Jobless Rate</u>
2012	Detroit city MI	18.2
2012	Flint city MI	16.1
2012	Warren city MI	11.7
2012	Clinton township MI	11.2
<b>2012</b>	<b>Lansing city MI</b>	<b>10</b>
2012	Grand Rapids city MI	9.1
2012	East Lansing city MI	8.4
2012	Sterling Heights city MI	7.7
2012	Dearborn city MI	7.3
2012	Ann Arbor city MI	5.8
2012	Livonia city MI	4.4

Source: Bureau of Labor Statistics

The city of Lansing's median household income in 2010 was \$37,666 as shown in Exhibit II-11. This decreased from a median household income of \$50,985 in 1980. The per capita income level remained steady since 1980, beginning at \$21,866 and ending at \$19,673. This difference may be due to the changing structure of the typical household in the city. A higher than average unemployment rate may place a strain on city resources as citizens may demand more government services while simultaneously having fewer resources to pay for such services.

Exhibit II-11 Real Median Household Income and Per Capita Income

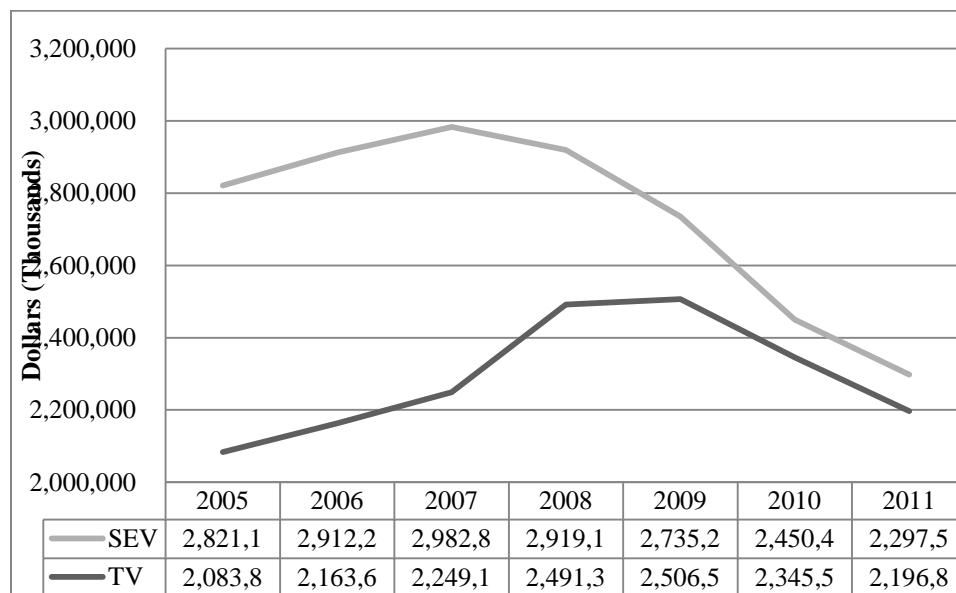


Source: U. S. Census Bureau

### Property Values

Like many communities across the state, property values in the city of Lansing have declined drastically since the onset of the Great Recession, as can be seen in Exhibit II-12. Due to the structure of the property tax in Michigan, the total taxable value (TV) of property in the city continued to increase in 2007 and 2008 even though the state equalized value (SEV) of properties was declining. After 2009, however, the taxable value of properties began to fall as well, as the SEV and TV for many properties in the city began to intersect. This reduction in property tax revenue may have bottomed out based on recent data from the city. This is an important trend that will help at least partially in reducing the damage inflicted by falling revenues over the past decade.

**Exhibit II-12 State Equalized Value (SEV) and Taxable Value (TV)**



Data Source: F65 Treasury Database Portal

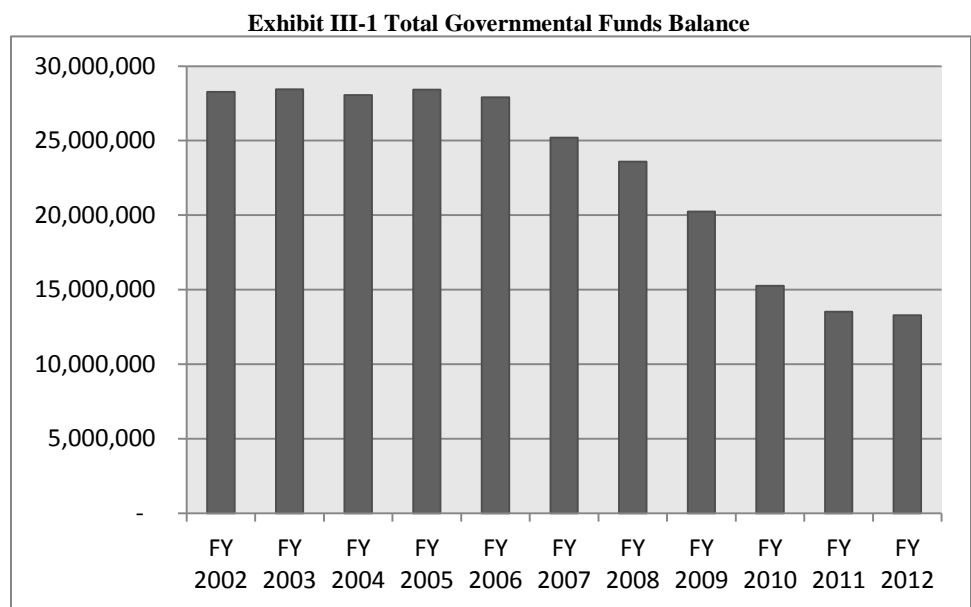
This reduction in property values means that the property tax burden on the median household in the city has also gone down. In 2010, the median household income was \$37,666. The total assessed valuation for residential properties was \$1,200,886,000 and the total millage rate paid by residents, inclusive of county taxes, city taxes, and school taxes but not including the 6 mill State Education Tax, was 48.79 mills. Therefore, the total property tax burden for all residential properties was \$58,591,227. Since the total number of households in Lansing in 2010 was

48,450, this means that the average property tax burden per household was \$1,209. This equates to 3.2% of the average per capita income.

### III. CITY FINANCES

This section focuses on the background of city finances over the last few years. This background was critical in allowing the team to understand the keys sources of fiscal stress and identify points for change and reform. This section covers the General Fund, Special Revenue Funds and Enterprise Funds.

One indicator of a city undergoing fiscal stress is a long-term trend of governmental fund balance depletion, which is a symptom of continuously operating under budget deficits. As of June 30, 2012, city of Lansing's governmental fund balance, excluding capital and debt service funds, is approximately \$13.3 million, which is 47% of its balance in 2002. This fund balance number has fallen from \$28.2 million in FY 2002. Fiscal stress has meant that the city has reduced overall fund balance by almost \$15.0 million in the last nine years. This trend was particularly prevalent as the impact of the Great Recession of 2008-09 began to hit the city. As shown in Exhibit III-1, the city of Lansing has been experiencing significant depletion of governmental fund balance since 2009.



Source: City of Lansing Comprehensive Annual Financial Reports

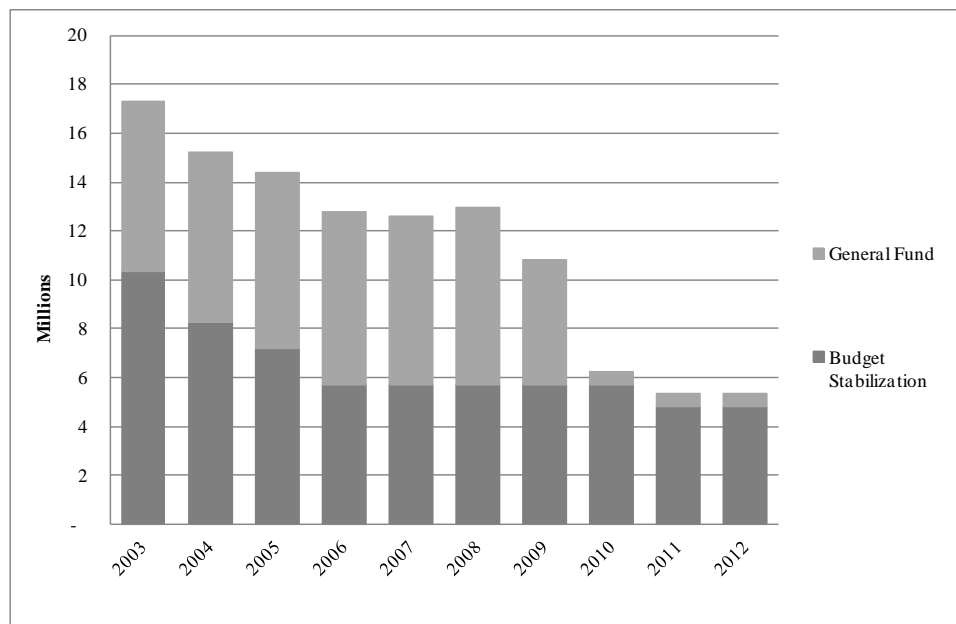


## **General Fund**

The city of Lansing General Fund is the main discretionary part of the budget and is where general taxes are allocated when collected. It is the main point of focus for most governments when considering fiscal health and stability.

According to the city of Lansing 2012 Comprehensive Annual Financial Report, the city of Lansing's General Fund ended the year with a combined General Fund and Budget Stabilization Fund balance of \$5.4 million. Of this amount, the General Fund balance in 2012 was approximately \$554,000, and the Budget Stabilization Fund was \$4.8 million (Exhibit III-2). As of June 30, 2002, the combined General Fund and Budget Stabilization Fund balance was \$17.1 million. Again, this reduction in General Fund Balance is an important indicator of fiscal stress. Generally, local governments are recommended to keep a fund balance reserve of 10 to 15% of revenues or expenditures. At this time, the city total General Fund balance reserve is only approximately 5%. This is well below industry standards as expressed by credit rating agencies and the Government Finances Officers Association (GFOA).

**Exhibit III-2 Reserve Funds – Ten Year History of Fund Balance**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide

The General Fund and reserve fund balances declined from 2002 to 2009. For four consecutive years (2007 through 2010), the city of Lansing was able to operate without relying on its reserve funds. Despite having adopted balanced budgets with significant reductions and without reliance on reserves, higher-than-anticipated revenue losses during the onset of the Great Recession

resulted in a draw-down in reserves from FY 2009-FY 2011, with the highest loss being a \$4.6 million deficit in 2010 (Exhibit III-3).

**Exhibit III-3 General Fund Revenues, Expenditures, and Changes in Fund Balance (condensed)**

<b>Fiscal year</b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
<b>Revenues and transfers in</b>						
Property taxes	\$ 35,844,777	\$ 36,041,763	\$ 36,703,522	\$ 37,965,131	\$ 36,352,257	\$ 32,501,559
Income taxes	28,209,913	31,168,012	29,312,762	27,408,443	28,699,749	27,943,070
State shared revenue	16,369,853	16,369,853	15,981,941	14,214,339	14,214,339	12,710,114
Other	28,556,321	28,622,193	29,669,295	28,558,228	30,113,633	29,529,233
Revenues and transfers in	<u>108,980,864</u>	<u>112,201,821</u>	<u>111,667,520</u>	<u>108,146,141</u>	<u>109,379,978</u>	<u>102,683,976</u>
<b>Expenditures and transfers out</b>						
General Government	26,313,988	26,794,259	26,529,134	25,418,251	23,846,234	22,439,973
Public safety	59,513,582	61,577,212	63,557,003	63,442,190	63,794,594	58,696,097
Other	23,347,329	23,484,048	23,735,598	23,870,144	22,651,122	21,506,194
Expenditures and transfers out	<u>109,174,899</u>	<u>111,855,519</u>	<u>113,821,735</u>	<u>112,730,585</u>	<u>110,291,950</u>	<u>102,642,264</u>
Net change in fund balance (deficit)	\$ (194,035)	\$ 346,302	\$ (2,154,215)	\$ (4,584,444)	\$ (911,972)	\$ 41,712
Fund balance (deficit) - beginning	7,078,185	6,884,150	7,230,452	5,076,237	491,793	5,330,487
Restatement increase					5,750,666	
Fund balance (deficit) - ending	<u>\$ 6,884,150</u>	<u>\$ 7,230,452</u>	<u>\$ 5,076,237</u>	<u>\$ 491,793</u>	<u>\$ 5,330,487</u>	<u>\$ 5,372,199</u>

Source: City of Lansing Comprehensive Annual Financial Reports

The city targets maintaining the General Fund and reserve levels at 10-15% of fund revenues; however, this metric has been less than 6% since 2010.<sup>v</sup> Operating at a low fund level places the city at risk of lacking the ability to adapt to fiscal shocks in the future. In addition low fund balances, cities undergoing chronic fiscal stress may also experience pressure due to spending constraints. Funds may be restricted regarding where they can be allocated and constrain a city's flexibility in addressing unexpected expenditures.

Exhibit III-4 shows constraints in the allocation of General Fund monies over the past ten years. In FY 2011, the city adopted GASB No. 54, which established fund balance classifications. The city did not retroactively adjust the balances for 2003 through 2010 with the updated classifications in its FY 2012. Also, the balance from 2003 through 2010 does not include the Budget Stabilization Fund, which was considered a Special Revenue Fund at the time.

**Exhibit III-4 General Fund Constraints (in thousands)**

<b>Fiscal Year</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>General Fund</b>										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 172	\$ 93
Restricted	-	-	-	-	-	-	-	-	41	16
Committed	-	-	-	-	-	-	-	-	178	65
Unassigned	-	-	-	-	-	-	-	-	4,940	5,198
Reserved	945	1,324	2,483	2,443	1,848	1,765	1,320	103	-	-
Unreserved	5,986	5,607	4,710	4,635	5,036	5,465	3,756	389	-	-
<b>Total General Fund</b>	<b>6,931</b>	<b>6,931</b>	<b>7,192</b>	<b>7,078</b>	<b>6,884</b>	<b>7,230</b>	<b>5,076</b>	<b>492</b>	<b>5,330</b>	<b>5,372</b>

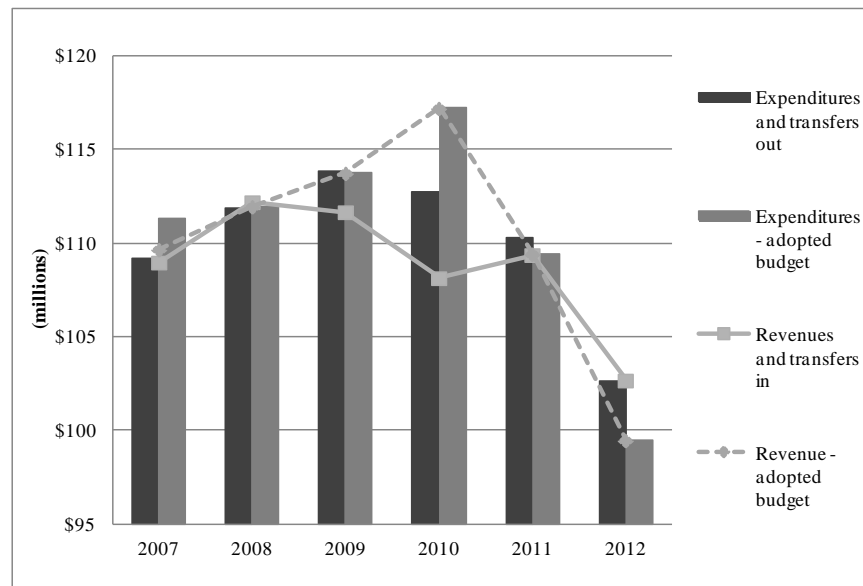
(note for comparison: due to financial reporting changes, “Unreserved” can most closely be compared to “Unassigned”)

Source: City of Lansing Comprehensive Annual Financial Reports

In comparing the actual and intended General Fund expenditures and revenues over the last five years, the recent budget shortfalls coincide with greater-than-anticipated declines in revenue (Exhibit III-5). From FY 2007 through 2008, actual expenditures were on-or below-target compared to original budgeted expenditures and revenues were close to original budget. In FY 2009, actual revenues were \$2 million less than anticipated revenues, resulting in a \$2 million deficit. Similarly, revenues in FY 2010 adopted budget were underestimated by \$9 million, the result of higher-than-anticipated reductions in income tax revenue and mid-year reductions by the state in the form of revenue sharing and property tax multipliers for automotive suppliers. Actual expenditures were \$4.5 million less than budgeted, which closed the gap by about 50%, but there still was a \$4.5 million deficit in FY 2010, reducing the General Fund balance by 90%.

Greater-than-anticipated revenue declines were also experienced in FY 2011. Expenditures and transfers came within the adopted budget, but the revenue shortfall resulted in a \$0.9M reduction in reserve funds. In FY 2012, the city underestimated its income tax revenues, but was able to end the year with a \$41,712 surplus.

**Exhibit III-5 General Fund Revenues and Expenditures – Actual vs. Adopted Budget**



Source: City of Lansing Comprehensive Annual Financial Reports and City of Lansing Adopted Budgets

### Revenues

Revenues represent incoming resources that can be used to fund government services. These revenues for a Michigan city government are typically general taxes, user fees, interest income, state revenue sharing and other miscellaneous sources. The three primary sources of revenue, and their proportionate share of the city of Lansing General Fund, are currently property tax (31.7%), income tax (27.2%), and state shared revenue (12.4%). In Michigan, municipalities are limited by state law in the types of revenues they can raise. Property taxes for most local governments are the major source of revenue along with state revenue sharing. For a number of Michigan cities, the city income tax has become an important revenue source. Local sales tax is not an option in Michigan. Historically, the state of Michigan has been relatively constrained in allowing for local option taxes as compared to other states.

### *Property Tax*

Property tax in Michigan is assessed on real and personal property. Municipalities are limited in levying property taxes in a few ways. First, the Home Rule City Act of 1909 limits cities in the state of Michigan to levying property taxes of no more than 20 mills for direct municipal services.<sup>vi</sup> Also, the Headlee Amendment, ratified in 1978, limits the authorized millage rate when aggregate property values rise at a faster rate than the rate of inflation.<sup>vii</sup> Increase in property values due to improvements or new construction are not subject to this limit. Finally, in 1994, Michigan voters approved Proposal A, which limited annual increases on individual properties to the taxable value to five percent or the rate of inflation, whichever is lower, until there is a transfer of ownership.<sup>viii</sup>

Compared to the ten most populated local units in Clinton, Eaton, and Ingham Counties, which represent 67% of the population, the city of Lansing levies the second highest homestead tax rate (Exhibit III-6). This may cause the city to be less competitive in attracting residents, which hinders its ability to increase its tax base. For example, a homeowner in the city of Lansing will pay, on average, 12% more than residents in the nine other largest communities. If a residential property has a taxable value of \$75,000, the city of Lansing homeowner will pay \$4,216. A homeowner in adjacent Lansing Township will pay \$3,776.

**Exhibit III-6 Millage Rates within Ingham, Eaton, and Clinton Counties for Fiscal Year 2012 (2011 Tax Rates)**

Taxing Unit	County	Type of Unit	Population	Tax Rates					Annual Bill Based on Taxable Value
				County	Local	School	State Education	Total	
East Lansing	Ingham	City	48,579	9.21	23.70	26.44	6.00	65.35	\$ 4,901
<b>Lansing</b>	<b>Ingham</b>	<b>City</b>	<b>114,297</b>	<b>9.40</b>	<b>20.08</b>	<b>20.74</b>	<b>6.00</b>	<b>56.21</b>	<b>\$ 4,216</b>
Lansing	Ingham	Township	8,126	9.52	13.04	25.78	6.00	54.34	\$ 4,076
Delhi	Ingham	Township	25,877	9.55	12.38	24.18	6.00	52.10	\$ 3,908
Mason	Ingham	City	8,252	9.55	14.81	21.69	6.00	52.05	\$ 3,904
Meridian	Ingham	Township	39,688	9.55	11.49	23.60	6.00	50.64	\$ 3,798
Charlotte	Eaton	City	9,074	7.59	16.14	19.24	6.00	48.97	\$ 3,673
Delta	Eaton	Township	32,408	7.59	6.92	23.35	6.00	43.86	\$ 3,290
Bath	Clinton	Township	11,598	5.80	6.93	22.37	6.00	41.09	\$ 3,082
DeWitt	Clinton	Township	14,321	5.80	6.67	20.34	6.00	38.82	\$ 2,912
<b>Population of Ten Largest Units</b>			<b>312,220</b>	<b>Average Rate</b>					<b>50.34</b>
<b>As a % of Tri-County Total</b>			<b>67%</b>	<b>Average Tax Bill</b>					<b>\$ 3,776</b>

Source: U.S. 2010 Census and Michigan Department of Treasury

According to the Exhibit III-7, property owners in the city of Lansing are subject to the third highest property tax rate, on both a homestead and non-homestead basis, out of the ten most-populated municipalities in Michigan. The direct city rates include levies not subject to the Home Rule City Act, such as solid waste services.

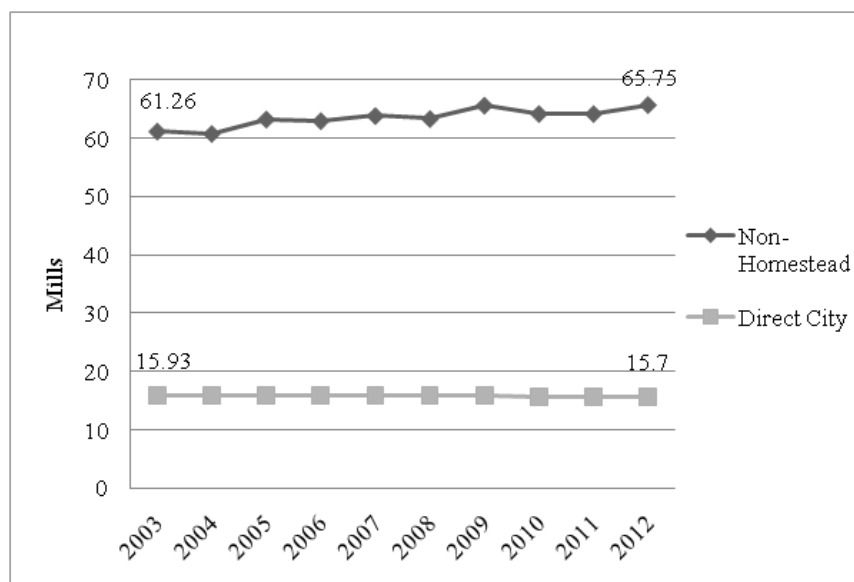
**Exhibit III-7 Property and Income Tax Rates for Michigan's Ten Largest Cities – FY 2012 (2011 Tax Rates)**

Jurisdiction	Pop. Rank	Property Tax - Millage Rates			Income Tax Rates	
		Non-Homestead	Principal Residence	Direct City	Resident	Non-resident
Detroit	1	85.1106	67.2798	29.51	2.5%	1.25%
Dearborn	8	66.4509	54.0491	21.90	-	-
<b>Lansing</b>	<b>5</b>	<b>65.7612</b>	<b>47.8350</b>	<b>15.70</b>	<b>1.0</b>	<b>0.5</b>
Flint	7	62.8550	44.8550	16.10	1.0	0.5
Clinton Township	10	58.8339	40.8339	12.70	-	-
Ann Arbor	6	58.6096	45.3008	16.57	-	-
Warren	3	55.2611	44.6668	19.89	-	-
Livonia	9	54.1048	36.1048	13.39	-	-
Sterling Heights	4	50.1545	39.5602	12.69	-	-
Grand Rapids	2	47.8921	29.8921	8.37	1.5	0.75

Source: Michigan Department of Treasury and 2012 Comprehensive Annual Financial Reports

Although the millage rate levied for direct city services has remained constant, the total non-homestead millage rate (non-city millages) has increased steadily over time (Exhibit III-8). In November 2011, voters were asked to approve a 4-mill levy to fund police, fire, and road maintenance services in order to mitigate reductions to such services. The proposal passed marginally with 51.9% approval;<sup>ix</sup> a similar ballot proposal was rejected earlier that year in May with only 47.8% approval.<sup>x</sup> During FY2013, this levy will increase the direct city millage to 19.44 mills, which raised the 19.16 mill cap imposed by the Headlee Amendment, and is anticipated to increase General Fund revenue by \$7.6 million.<sup>xi</sup> However, this millage also reduces the city's capacity to raise revenue in the future due to the limitations imposed by the Home Rule City Act.

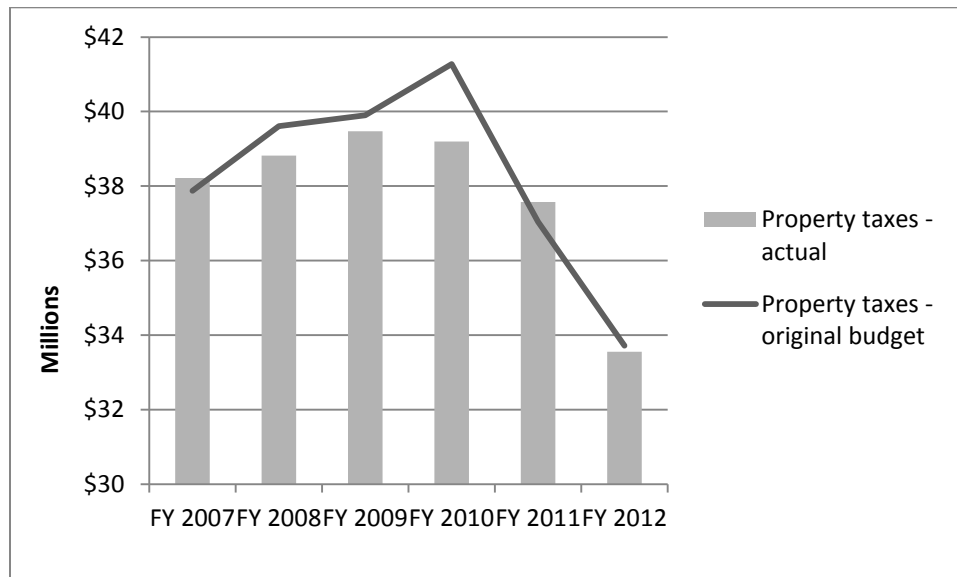
**Exhibit III-8 City of Lansing Millage Rates (Fiscal Years)**



Source: City of Lansing Comprehensive Annual Financial Reports

As discussed in section I, property values in Lansing have dramatically decreased over the past four years. Exhibit III-9 shows the impact of this with trends of the city's actual and budgeted property tax revenues. Property tax revenues have generally been within \$500,000, or 2%, of adopted budgeted amounts, with two exceptions: FY 2008, where lesser amounts were received than anticipated as part of a 425 revenue sharing agreement and FY 2010, when mid-year changes by the State to auto supplier tax multipliers affected those 425 revenue sharing agreements by \$1.3 million.

**Exhibit III-9 Property Tax Revenue - Adopted Budget vs. Actual**

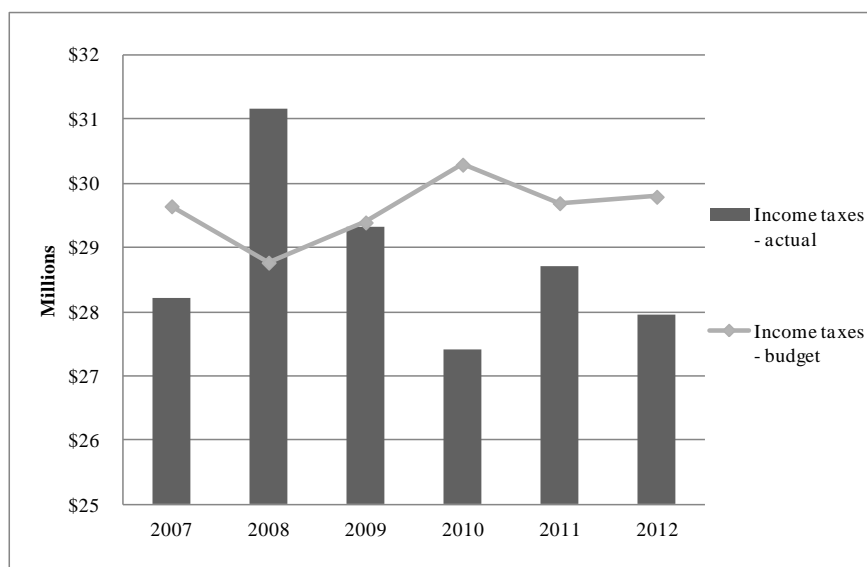


Source: City of Lansing Comprehensive Annual Financial Reports

### *Income Tax*

Of the ten largest cities in Michigan, three are authorized to levy an income tax, which includes the city of Lansing. Effective since July 1, 1968, the income tax rate has been 1% for those who live within the city limits and 0.5% for non-residents who work within the city limits.<sup>xii</sup> The city's ability to estimate income tax revenue has been rather inconsistent over the past six years, as seen below (Exhibit III-10). Since 2010, income tax revenue has been overestimated by \$1 to almost \$3 million (FY 2010), as a result of the effects of the recession.

**Exhibit III-10 Income Tax Revenue - Adopted Budget vs. Actual**



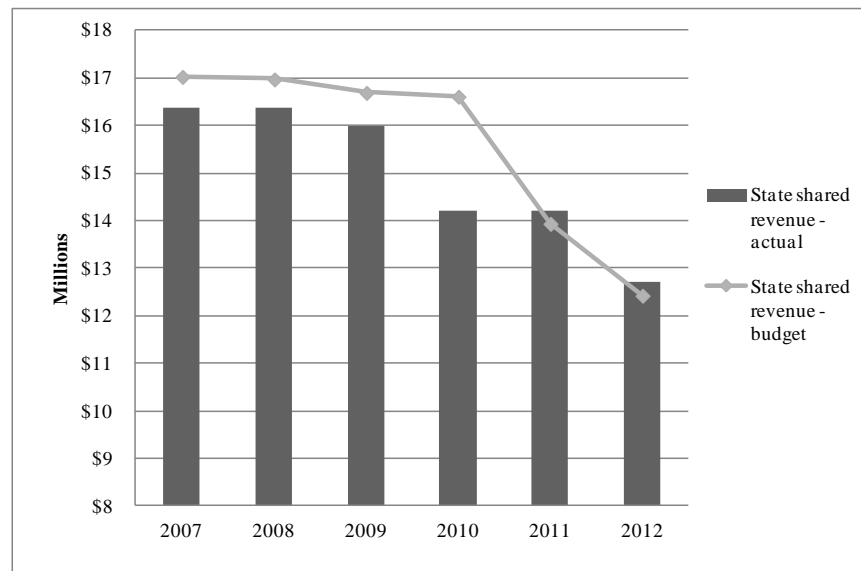
Source: City of Lansing Comprehensive Annual Financial Reports

### *State Shared Revenue*

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis, and the statutory portion of revenue sharing is defined by a formula. The Michigan State Legislature budget for 2010 fiscal year cut statutory funding to municipalities across the state, which included a reduction of \$1.7 million for the city of Lansing compared to 2009 fiscal year.<sup>xiii</sup> Cuts to revenue sharing from the state resulted in adopted budget shortages of about 4% during FY2007 through FY2009. In 2011 and 2012, the City actually underestimated its state shared revenue. A decade of cuts to statutory revenue sharing over by the State has had a significant impact on Michigan municipalities. In 2001, Lansing received \$21 million annually in revenue sharing from the State; in 2012, the amount was \$12.5 million, a cumulative loss of over \$54 million.



**Exhibit III-11 State Shared Revenue - Adopted Budget vs. Actual**



Source: City of Lansing Comprehensive Annual Financial Reports

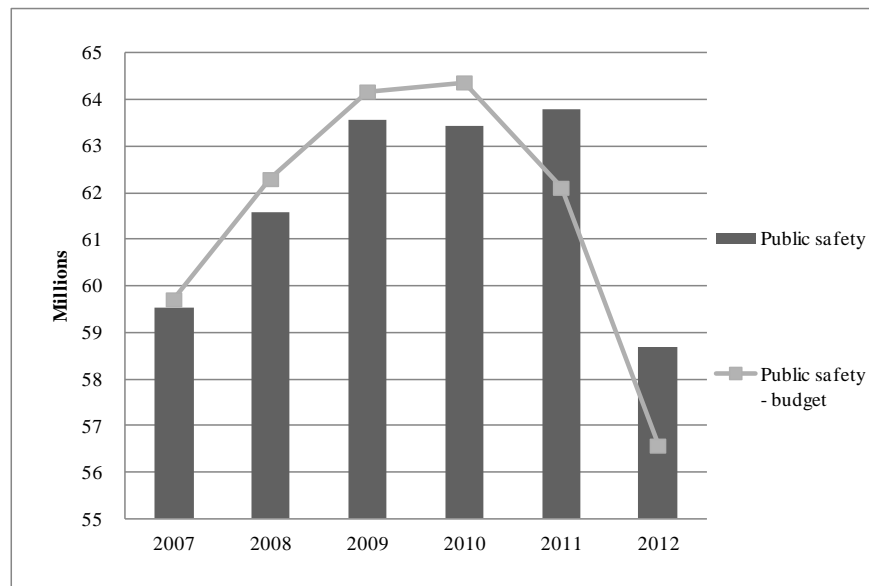
### Expenditures

Expenditures represent the use of resources in order to provide government services. This section mostly focuses on General Fund expenditures. The primary General Fund expenditures are public safety and general government services (such as City Council, the Mayor's office, court systems, city attorney, etc.). In 2012, 57.2% of spending was allocated to public safety and 21.9% to general government.

### *Public Safety*

Public safety consists of the majority of the General Fund expenditures. The city managed to spend under the adopted budget in 2007 through 2010 (Exhibit III-12). However, in 2011 expenditures exceeded the adopted budget by about \$2 million, due to overtime costs and increases in city-wide health insurance. In FY 2012, the adopted budget anticipated the elimination of statutory revenue sharing and budget cuts to public safety personnel were enacted accordingly. That year, when statutory revenue sharing was added back by the State in the form of the Economic Vitality Incentive Program (EVIP), some of the positions, in conjunction with healthcare concessions by unions, were reinstated by a budget amendment. In both FY 2011 and 2012, Public Safety expenditures came within amended budget amounts. Budgetary challenges have impacted Public Safety budgets. For example, the city closed a total of three fire stations in 2011 and 2012 and closed one police station in 2012.

**Exhibit III-12 Public Safety Expenditure - Adopted Budget vs. Actual**



Source: City of Lansing Comprehensive Annual Financial Reports

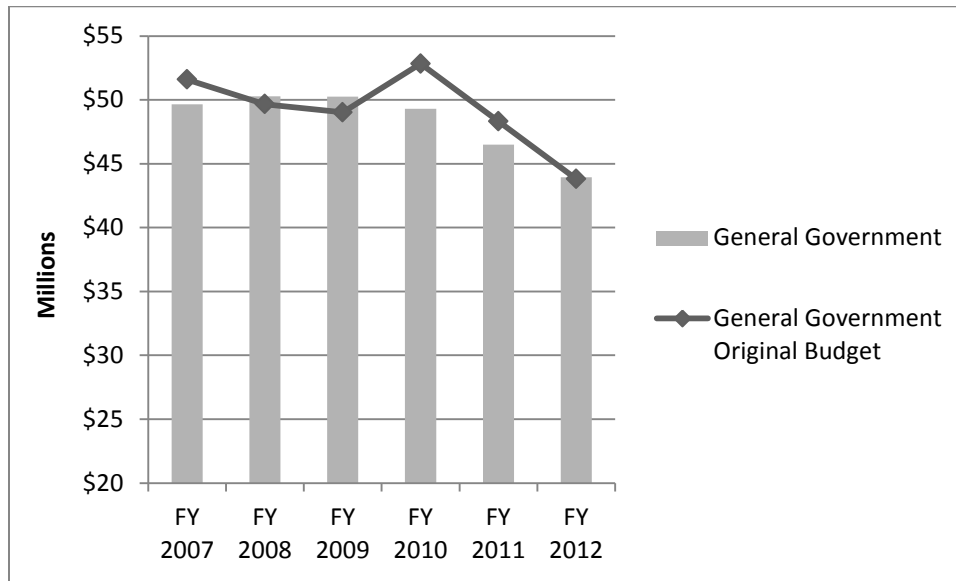
### *General Government*

General government generally compasses the following areas of local government operations:

- Circuit Court Building Rental
- City Attorney's Office
- City Council
- City Clerk's Office
- City Television
- District Court
- Finance Department
- Human Resources
- Internal Audit
- Lansing Entertainment and Public Facilities Authority
- Library Building Rental
- Mayor's Office
- Planning and Neighborhood Development
- Vacancy Factors

General government expenditures have generally been less than original budget over the past six years (Exhibit III-13).

**Exhibit III-13 General Government Expenditure - Adopted Budget vs. Actual**

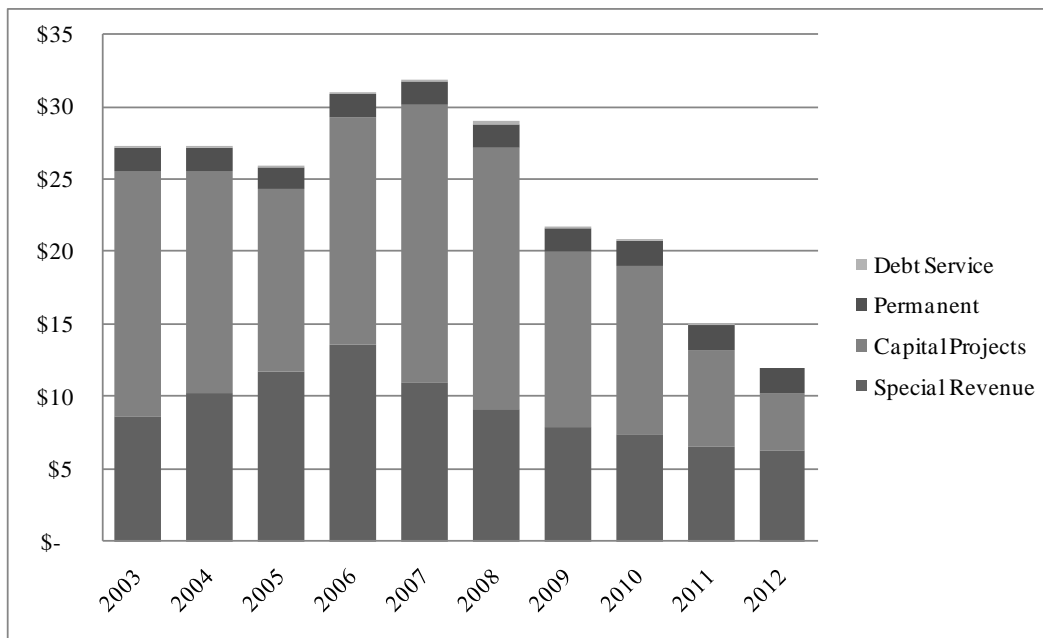


Source: City of Lansing Comprehensive Annual Financial Reports

### **Special Revenue Funds**

Special revenue funds are generally used to track and account for monies tied to grant programs, dedicated millages and other government functions where separate accounting is used. These funds must be used for their specified purpose and are not available for general discretionary usage. Other governmental funds are shown in Exhibit III-14. These include special revenue funds, debt service funds, capital projects funds, and permanent funds. Special revenue funds and capital projects funds comprise the majority of the other governmental funds.

**Exhibit III-14 Other Governmental Funds – Ten Year History of Fund Balances**



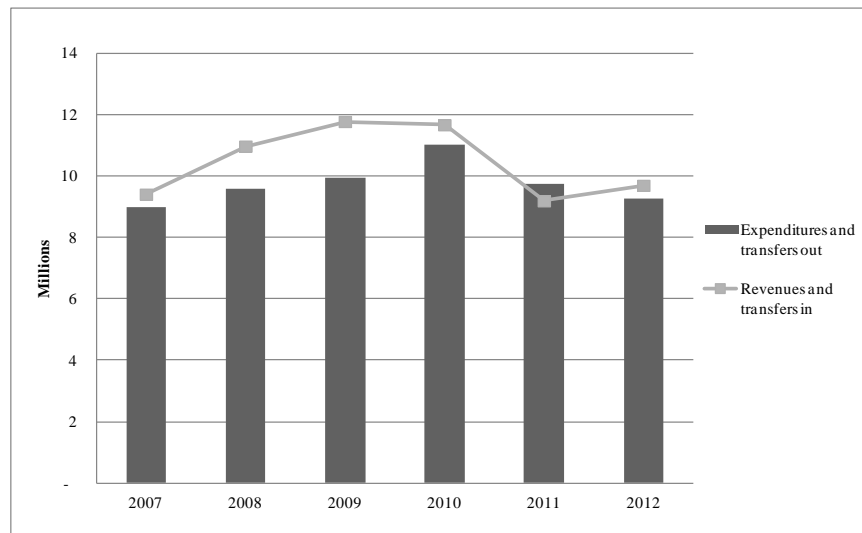
Source: City of Lansing Comprehensive Annual Financial Reports

As of FY2012, special revenue funds consist of the following types of funds:

- Major Streets
- Local Streets
- Drug Law Enforcement
- Community Development Block Grant
- Downtown Lansing, Inc.
- 911 Communications Center
- Building Department
- Parks Department
- Tri-County Metro Narcotics

The main special revenue funds are the Major Streets Fund and the Local Streets Fund. Major Streets Fund supports the City's maintenance of 44 miles of state trunk-lines. The majority of funding is sourced from the State of Michigan through the Gas and Weights tax, subject to Public Act 51 of 1951. In 2009, the fund was also subsidized by \$2.3 million in federal stimulus funds from the American Recovery and Reinvestment Act (ARRA), which were budgeted for improvements in 3.5 miles in roads. Occasionally, the Major Streets Fund has also been supported by the General Fund, ranging from \$300,000 to \$2.2 million in transfers.

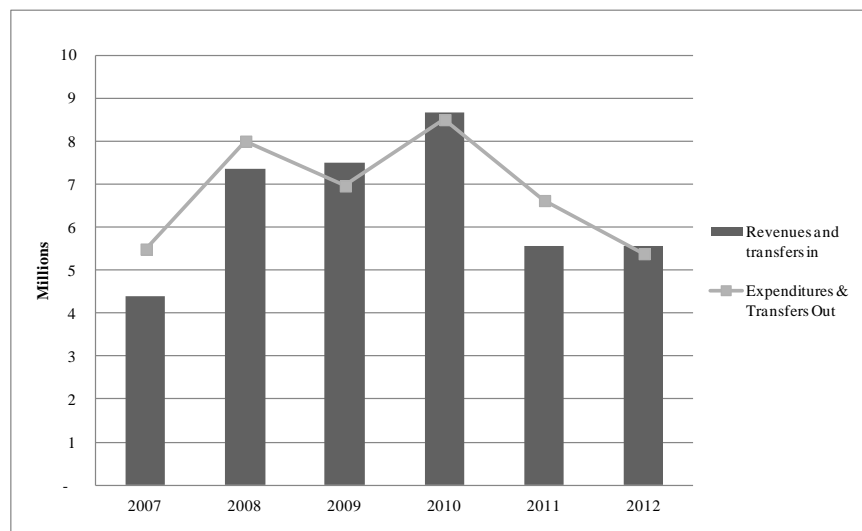
**Exhibit III-15 Major Streets Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports

The Local Streets Fund is mainly supported by Act 51 Gas and Weight tax revenues from the State of Michigan and transfers from the Major Streets Fund, which have ranged from \$1.1 to 2.2 million since 2007. The Local Streets Fund has also received subsidies from the General Fund for debt service, which have declined since 2009 due to budget constraints. Diminishing support from both Act 51 and General Fund, have led to the elimination of road construction projects. The property tax millage that was passed in November 2012 will allocate 1 mill toward local streets maintenance to relieve this burden, from which the city has budgeted \$1.9 million in revenues for FY2013.

**Exhibit III-16 Local Streets Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports

Gas taxes in Michigan have been declining for a number of years as cars become more efficient and fewer people have been driving fewer miles especially during the Great Recession of 2008-09. The state of Michigan recognizes these funding challenges and it has been reported that overall the state has underfunded roads by nearly \$3 billion annually. Cities like Lansing have in turn received less funding for roads and thus struggle to maintain this critical infrastructure.

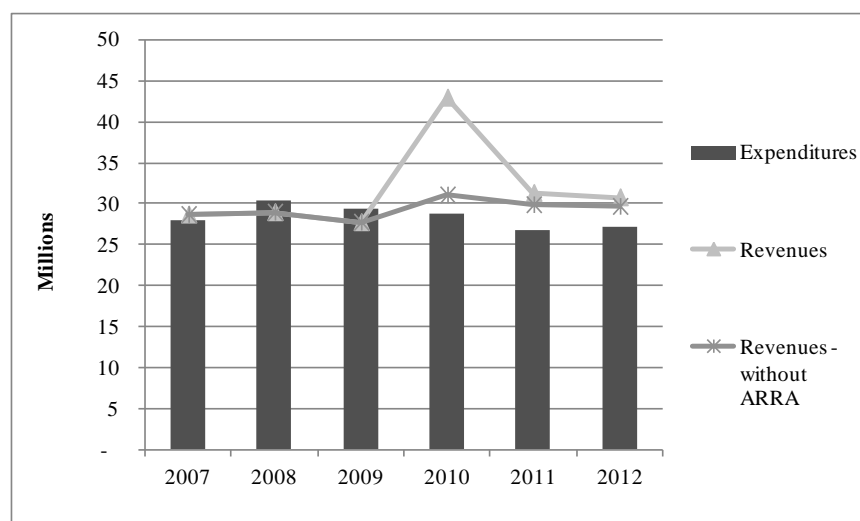
### **Proprietary (Enterprise) Funds**

The city's proprietary funds include the sewage and disposal system, municipal parking system, cemetery, golf, and garbage and recycling collection. Enterprise funds are used for those government operations that are run more like a business entity with specific user charges for services. The user fees that finance these funds are intended to be structured to support day-to-day operations as well as capital improvements; however this is not always the case, as discussed below.

In 2008, the city of Lansing transferred Potter Park Zoo operations to Ingham County, although the city still retained the title to the Zoo property. This resulted in an outgoing transfer of \$5.7 million from the zoo enterprise fund.

From 2010 through 2012, the Sewage Disposal System Fund received a total of \$16.0 million in American Recovery and Reinvestment Act (ARRA) funds in order to support the Combined Sewer Operations (CSO) project and other smaller projects. The CSO is a 30-year project that was launched in 1991 to separate the sanitary and storm sewer systems in order to prevent sewage overflow into Grand River during high rainfall.<sup>xiv</sup> In addition to receiving federal grants for this project, the city has also generated additional revenue to the Sewage Disposal Fund by raising user rates.

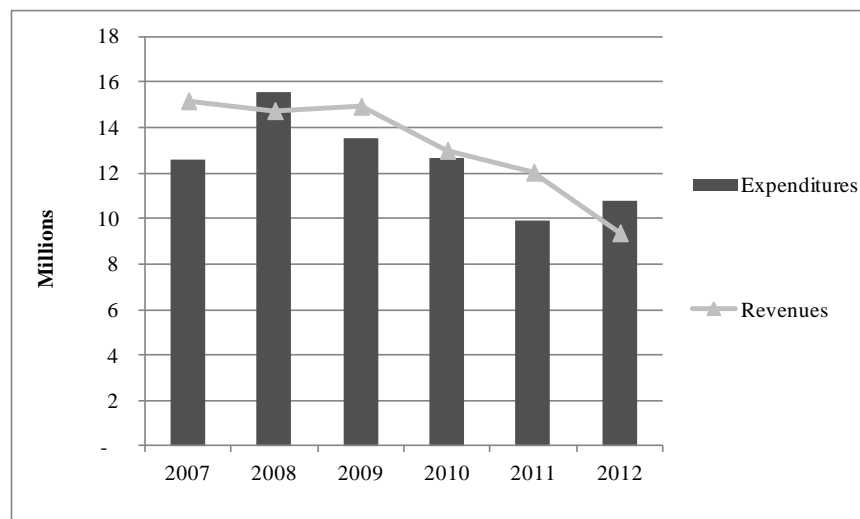
**Exhibit III-17 Sewage Disposal Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

The city's Municipal Parking System Fund has generally been self-sustaining, requiring no transfers from the General Fund. It incurred a \$1.3 million operating loss in 2008 due to transfers to the Capital Projects Fund and a \$455,000 loss in 2011 due to scheduled maintenance, as part of a five-year maintenance plan. The loss in 2011 was off-set by the conversion of a loan from the State of Michigan into a grant. In 2012, the city's parking system underwent an operating loss of \$1.2 million due to scheduled maintenance and an additional \$1.4 million loss in net assets due to sale of parking system properties.

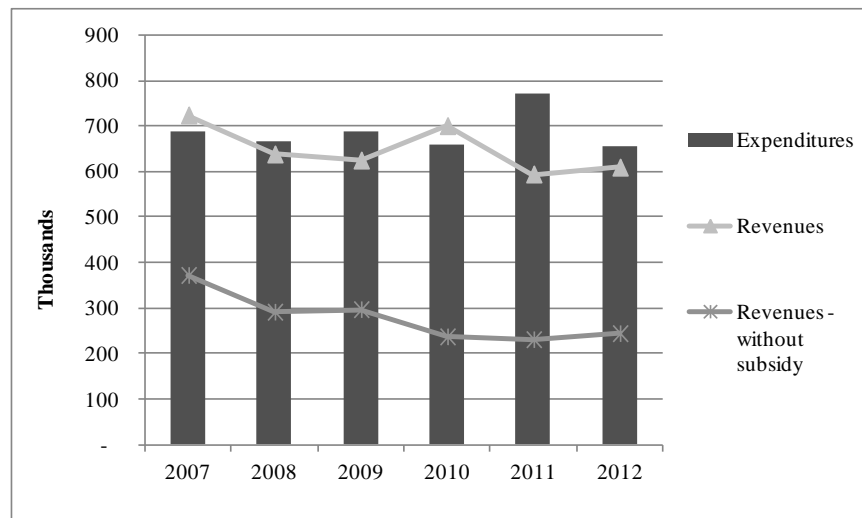
**Exhibit III-18 Municipal Parking Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Over the past several years, the General Fund and/or the Parks Millage Fund have subsidized the Cemetery Fund. Since 2007, own-sourced revenues have only met 30-50% of annual expenditures. Even with the subsidies, revenues have typically been insufficient to cover expenses (Exhibit III-19).

**Exhibit III-19 Cemetery Fund Revenues and Expenditures**



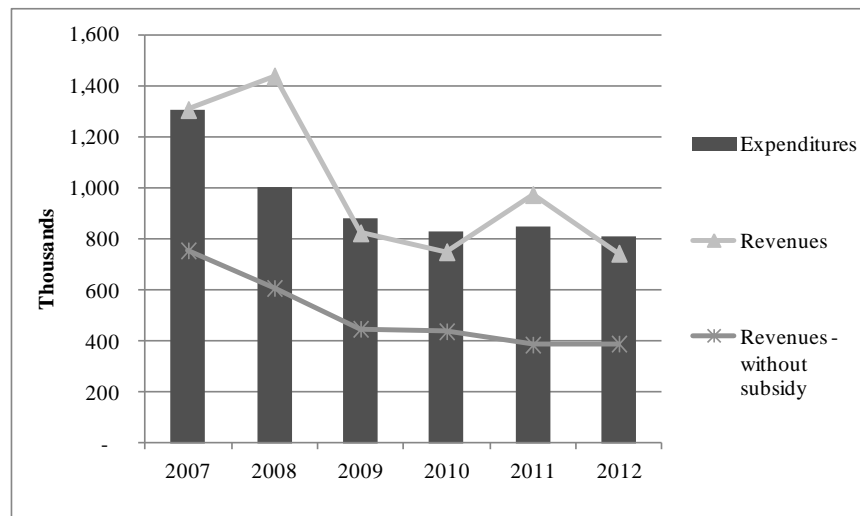
Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

General Fund and Parks Millage Fund also subsidize the Golf Fund since own-sourced revenues are insufficient to cover expenses. Previous efforts to manage costs include closure of the Waverly and Red Cedar golf courses in 2008. Also, in November 2012, voters approved a ballot proposal to authorize the City to sell the Red Cedar Golf Course with 67% approval.<sup>xv</sup> The City plans to sell up to 48 acres of the golf course for redevelopment and use the remaining the land for a storm water management project. The proceeds of the sale would be allocated toward improvements in recreational facilities in Red Cedar Park, support of the storm management project, and/or support the city of Lansing's park system.<sup>xvi</sup>

The city has also pursued partnerships with organizations outside of the Parks and Recreation Department to assist in controlling costs for its remaining facilities, the Groesbeck Golf Course and Sycamore Creek Driving Range. First Tee of Mid-Michigan, a non-profit organization, assumed management of the latter in 2011, and in the spring of 2013, the Lansing Entertainment and Public Facilities Authority (LEPFA) will assume management over marketing and concessions for the Groesbeck Golf Course.



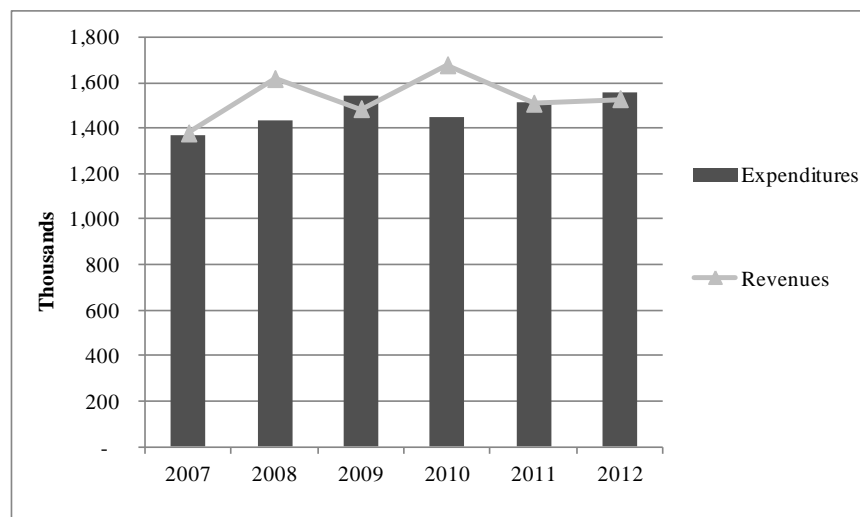
**Exhibit III-20 Golf Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

In general, the Garbage Collection Fund has managed to stay self-sustaining over the last six years. The city raised rates for the 2013 fiscal year in order to offset increased operating costs.

**Exhibit III-21 Garbage Collection Fund Revenues and Expenditures**

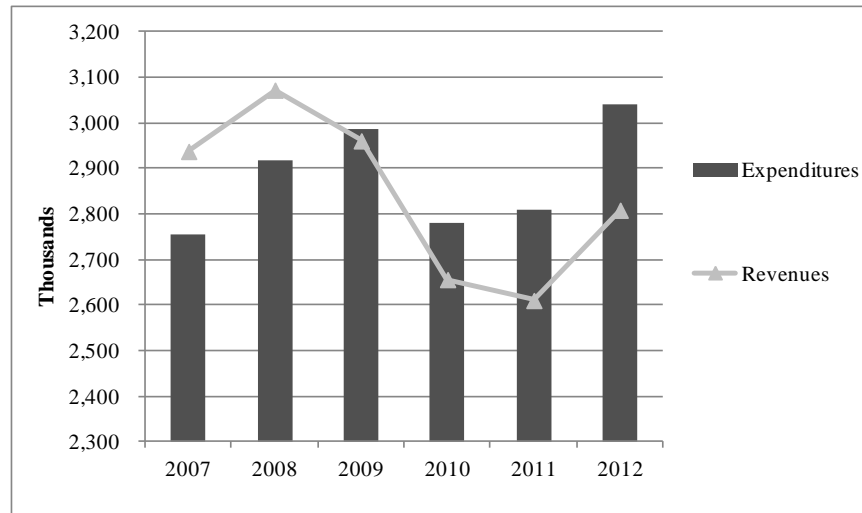


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

On the other hand, expenditures have exceeded revenues in the Recycling Fund for the past four years (Exhibit III-22). In late 2009, the city launched a pilot program of single-stream recycling, in which all recyclables are collected in one container in the collection truck in order to streamline the collection process. In 2010, the annual fee was reduced from \$74.50 to \$67, and later in 2012 the fee was increased to \$69. In 2012, the city expanded the single-stream process and implemented another pilot program using recycling carts instead of plastic bins. During the

2013 fiscal year, the city plans to expand cart recycling, which will require increasing fees to levels comparative to those in 2007, after accounting for inflation.

**Exhibit III-22 Recycling Fund Revenues and Expenditures**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

## **Internal Service Funds**

The city allocates internal service funds for fleet maintenance, engineering, and certain fringe benefits such as retiree health care. Similar to the enterprise funds, these funds should be self-sustaining as long as charges for services are sufficient to cover operating and capital costs.

**Exhibit III-23 Internal Service Fund Assets**

Fiscal year	2007	2008	2009	2010	2011	2012
<b>Revenues and Transfers In</b>						
Charges for services	\$ 58,068,589	\$ 58,100,182	\$ 59,392,910	\$ 60,045,701	\$ 65,351,606	\$ 64,726,153
Transfers In	3,337,958	673,861	1,726,941	-	-	-
Investment Income	-	-	-	-	5,622	8,041
Gain on sale of capital assets	88,605	124,436	32,310	75,094	108,601	123,066
Revenues and transfers in	61,495,152	58,898,479	61,152,161	60,120,795	65,465,829	64,857,260
<b>Expenditures</b>						
Fleet Maintenance	7,079,971	8,066,722	8,817,129	6,960,819	7,170,594	7,746,441
Fringe Benefits	47,078,497	49,809,983	50,428,650	53,657,193	54,093,450	55,859,083
Engineering	2,806,053	2,408,158	2,411,742	2,476,697	3,041,017	3,056,757
Expenditures and transfers out	56,964,521	60,284,863	61,657,521	63,094,709	64,305,061	66,662,281
Net change in fund balance (deficit)	4,530,631	(1,386,384)	(505,360)	(2,973,914)	1,160,768	(1,805,021)
Fund balance - beginning	8,069,991	12,600,622	11,214,238	10,708,878	7,734,964	8,895,732
Fund balance - ending	\$ 12,600,622	\$ 11,214,238	\$ 10,708,878	\$ 7,734,964	\$ 8,895,732	\$ 7,090,711

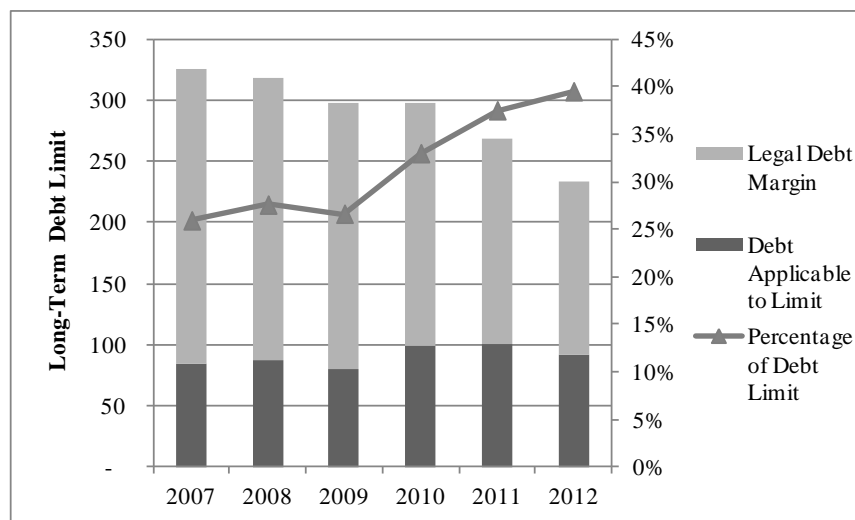
Source: City of Lansing Comprehensive Annual Financial Reports

## IV. DEBT

The city of Lansing is fairly well-positioned in terms of long-term debt obligations. The city published in its 2012 Citizens' Guide to City Finances that its general obligation bond ratings are A1 (Moody's) and AA (Standard and Poor's) and its revenue bond ratings are 'Aa3' (Moody's) and AA- (Standard and Poor's). In October 2011, Moody's had downgraded the city's general obligation debt from Aa2, citing declines in valuations and operating under deficits that have depleted General Fund balance,<sup>xvii</sup> as discussed in section II. In December 2012, Standard and Poor's issued a report which upgraded the city's outlook from 'negative' to 'stable' and affirmed its 'AA' bond rating.<sup>xviii</sup> However, the report also cautioned that this rating is subject to the city's response to revenue fluctuations and budget gaps and that it could be downgraded if these issues are not addressed.

Exhibit III-1 illustrates the effect of valuations on the city's long-term debt limit, which is 10% of the assessed value of real and personal property.<sup>xix</sup> Although the nominal debt applicable to the debt limit has remained fairly steady over the past six years, the decline in property values has caused the debt as a percentage of the legal debt limit to rise by 14 percentage points since 2007.

Exhibit IV-1 Long-Term Debt Limit

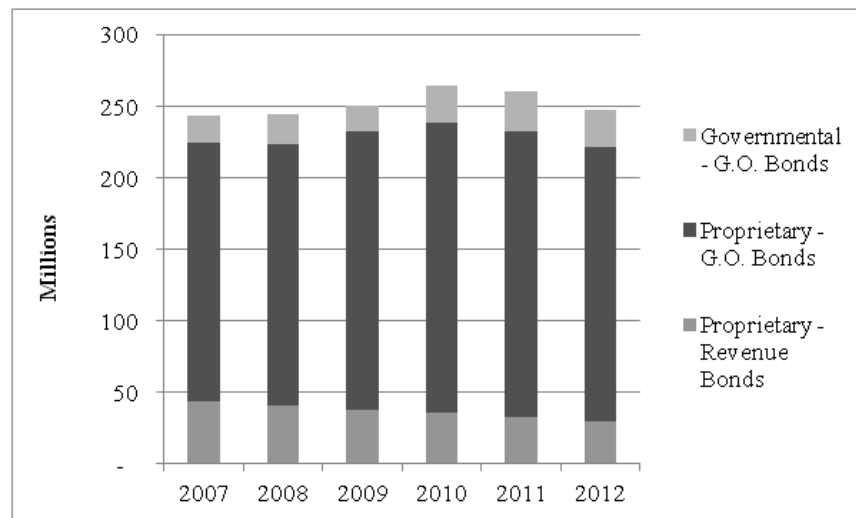


Source: City of Lansing Comprehensive Annual Financial Reports

As of June 30, 2012, the majority of the city's outstanding debt is comprised of bonds for proprietary funds (81%) as opposed to governmental funds (19%). The proprietary fund debt is mostly due to general obligation bonds for the sewer fund for the EPA-mandated Combined

Sewer Overflow (CSO) sewer separation project. Exhibit IV-2 shows a breakdown of the city's general obligation and revenue bond balances.

**Exhibit IV-2 Bonded Debt - General Obligation and Revenue Bonds**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

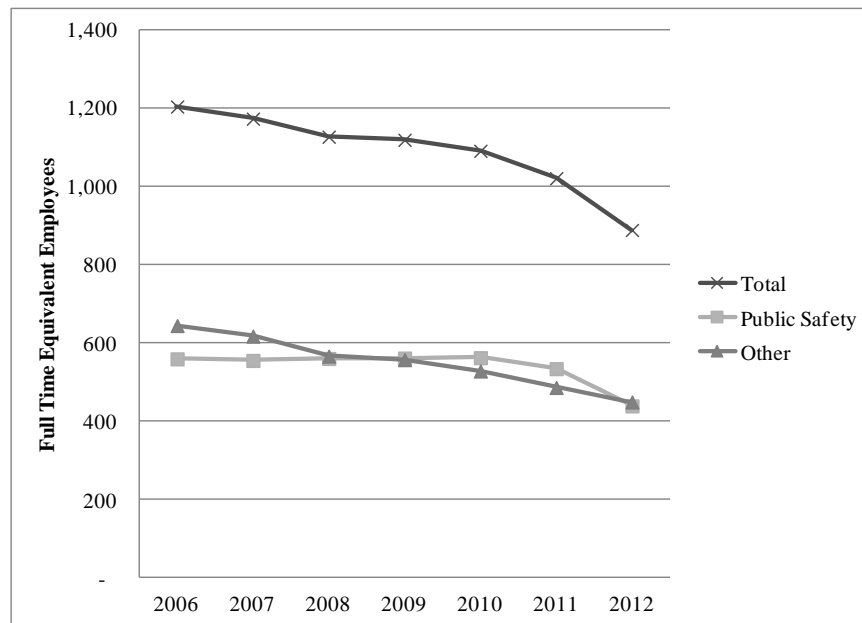
## V. PERSONNEL TRENDS AND COSTS

The city of Lansing's budget is primarily driven by personnel costs as the city government, like most local governments, is a labor-intensive operation. Therefore, it is critical that these costs be examined to assess trends and key issues where reforms can be enacted. It should be pointed out that city of Lansing employees have already stepped forward and been willing to reduce their own benefit packages and have been subject to furlough days. Further, the city has reduced the workforce by nearly 30% over the past few years. This section reviews the trends in personnel and personnel costs

### Annual Earnings and Benefits

The city of Lansing's payroll has declined by over 300 full-time equivalent employees, about 26%, over the last six years due to attrition, transfers, and layoffs. This breaks down to a 21% reduction in public safety employees and 30% reduction in other city employees.

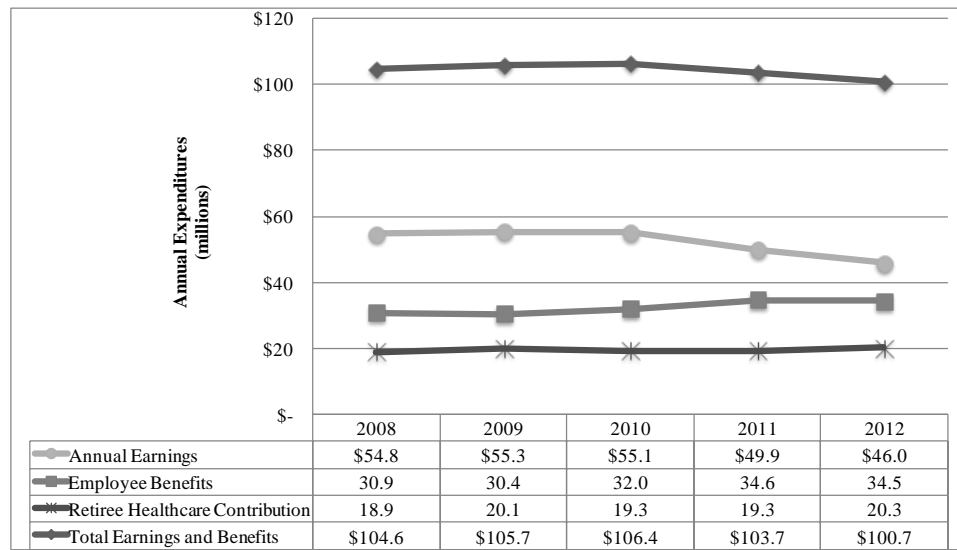
**Exhibit V-1 Full Time Equivalent Employees**



Source: City of Lansing Comprehensive Annual Financial Report

However, these personnel reductions have not necessarily induced comparative reductions in expenditures. Exhibit V-2 illustrates the overall personnel costs since 2008, which include annual earnings (including overtime), fringe benefits (such as health care, pension, workers compensation, FICA, and life insurance), and retiree health care and other post-employment benefit (OPEB) payments, which cover current premiums and any pre-funding. In addition to staff reductions, the city has attempted to control costs through measures such as furloughs, or reductions in work hours, and reductions in overtime for non-emergency employees. This reduced the base earnings by about 17%, but overall personnel costs have remained fairly constant. This is mainly due to increases in pension costs from 2010 through 2012. This chart provides a relative perspective on the relationship between payments for employee compensation and payments for employees after they retire for health care coverage.

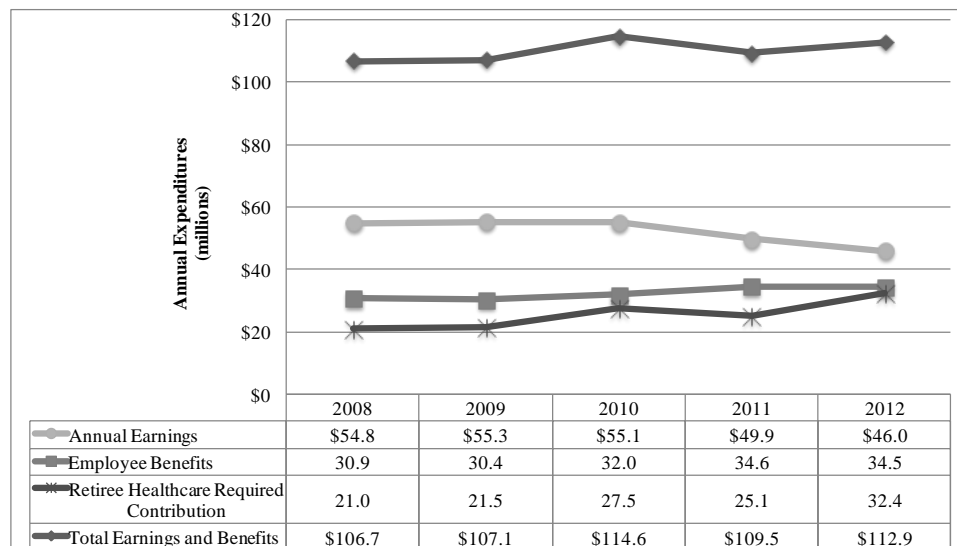
**Exhibit V-2 Annual Earnings and Benefits Expenditures & Retiree Health Care Payments**



Source: City of Lansing Finance Department

Exhibit V-3 depicts a more comprehensive assessment of personnel costs by including the retiree health care legacy costs. This exhibit accounts for both the normal cost of benefits for the current year of service and an amortization payment to reduce the Unfunded Actuarial Accrued Liability (UAAL). Since the city has not contributed the full amount of the annual required contribution (ARC) over the years, overall costs have actually increased despite staff reductions.

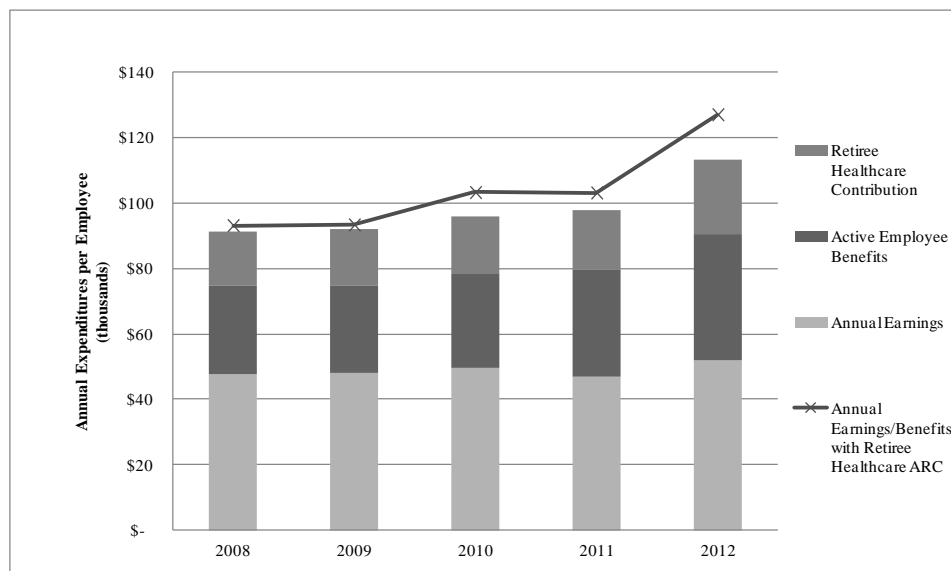
**Exhibit V-3 Annual Earnings and Benefits Expenditures - Retiree Health Care Annual Required Contribution**



Source: City of Lansing Finance Department

Another illustration of how the city of Lansing's personnel costs have changed over time depicts the costs from Exhibit V-3 and Exhibit V-4 on a per active employee basis. Since 2008, there has been a 24% increase in actual costs per employee and 36% increase in costs taking into account amortized payments to fund the OPEB liabilities.

**Exhibit V-4 Earnings and Benefits on a Per Employee Basis**



Source: City of Lansing Finance Department

The city of Lansing may potentially realize cost savings for medical benefits in FY 2014. The Publicly Funded Health Insurance Contribution Act (PA 152), passed in September 2011, places limits on public employer contributions to medical benefit plans for active employees.<sup>xx</sup> Public employers can choose between a dollar amount cap based on a formula or pay no more than 80% of the annual health care costs. The has adopted the hard cap option. In August 2012, the Administration recommended and the City Council adopted a resolution that established a base plan healthcare plan for the executive management group with lower rates than the hard cap. That plan includes deductibles and coinsurance, with the option to pay extra for additional coverage or a smaller deductible. The resolution included pre-existing FY 2012 benefit plans in the list of alternative plans; however, continued participation is contingent on payment for the additional cost of coverage.<sup>xvi</sup> The Teamsters Local 214 collective bargaining unit adopted a similar benefit plan, and in October 2012, the City Council passed a resolution that applied this plan structure to City Council staff.<sup>xxi</sup>

### **Pension Benefits**

The city of Lansing has a wide variety of pension plans offered to employees. Like many cities, pension plans were offered as a benefit in order to attract employees to city employment in the face of historically stiff competition from the auto industry in particular. An analysis was undertaken to determine the status of the city's pension systems.

### Exhibit V-5 Comparison of Pension Benefits

Patrol Officer Labor Contracts - Pension As of June 2011								
Community	Type	Defined Contribution	Defined Benefit:					
			Multiplier	EE Contribution	Eligibility	Maximum	FAC	COLA
Ann Arbor	DB	n/a	2.75	5.00%	55/5	none	3	No
Grand Rapids	DB	n/a	2.7	8.66% if funded < 100%		80%	5	1% after 5 years
Livonia	DC	11% ER	n/a	n/a	n/a	n/a	n/a	n/a
Southfield	DB	n/a	2.8	3.75%	any age/25	70%	3	No
Sterling Heights			2.8 up to 25 years; 1%/year thereafter	0.00%	any age/25	75%	3	No
Warren	Annuity	n/a	Annuity at 2.5 (25yrs); 1.0 (after 25 yrs)	5.00%	55/25	Scale up to 85% at 30 years	3	Maintain pension at no less than 40% of top paid officer salary
Westland	DB	n/a	2.8 up to 30 years; 1%/year thereafter	5% (if hired after 7/1/07); otherwise 0%	any age/25	none	3	No
Lansing	DB	n/a	3.2	8.50%	50/25	80%	2	\$525/year
Battle Creek	DB	n/a	2.5	7.20%	55/25	none	3	E2
Jackson	DB	n/a	2.9	11.24%		none	3 plus 1%/year for each year > 25	No
Muskegon								
hired prior to 7/28/06	DB	n/a	3.0	6.00%	50/25; 55/10	75%	3	No
hired after 7/28/06	DC	10% ER	n/a	6.00%	n/a	n/a	n/a	n/a
Saginaw								
hired prior to 7/1/02	DB	n/a	2.6 up to 25 years	11.50%	any age/20	65%		One time 2.5%
hired after 1/1/02	DC	10% ER	n/a	5.00%	n/a	n/a	n/a	n/a
Pontiac	Annuity	n/a	Annuity at 3.0 (20yrs); 2.5 (next 5yrs); 1.0 (after 25 yrs)	5.00%	50/20	77.50%	n/a	n/a
Flint	DB	n/a	2.6%	5.00%	50/25	62.5	3	No

Abbreviations: Cost of Living Adjustment (COLAS), Defined Benefit (DB), Defined Contribution (DC), Employee (EE), Employer (ER), and Final Average Compensation (FAC)

Source: Scorsone & Bateson, 2011<sup>xxii</sup>

Defined benefit plan pensions guarantee retiree benefit payments to retirees, with benefit levels being determined by a three part formula. The formula for calculating the annual pension benefit is shown below.

$$\text{Annual Pension Benefit} = \text{Years of Service} \times \text{Final Average Compensation (FAC)} \times \text{Pension Multiplier}$$

*Years of Service* - Years of service is based on actual employee service, although sometimes the employee or employer may “buy” years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.



*Final Average Compensation (FAC)* – The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is how some retiree’s actual pension benefit can be higher than their regular full time pay as an active employee.

*Pension Multiplier* – The pension multiplier represents a percent of pay for each year of service.

A cost of living adjustment (COLA) provides an annual increase in benefit retirement. A COLA benefit provides a 2% annual increase in pension for retirees. A concern for granting automatic pension increases is that it further constrains future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

Based on the most recent actuarial valuations, the city of Lansing incurs the third-largest unfunded pension liability out of the ten largest cities in the state with \$218 million (Exhibit V-6). The City also has the lowest funded ratio at 66.9%.

**Exhibit V-6 Pension Funding Status for Michigan’s Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability**

<u>Jurisdiction</u>	<u>Population</u>		<u>Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>
	<u>Rank</u>	<u>Census</u>			
Detroit	1	713,777	\$ 7,528,809,731	\$ 643,754,129	91.4%
Flint	7	102,434	835,052,000	267,837,000	67.9%
<b>Lansing</b>	<b>5</b>	<b>114,297</b>	<b>659,854,217</b>	<b>218,260,616</b>	<b>66.9%</b>
Warren	3	134,056	534,599,101	133,133,119	75.1%
Grand Rapids	2	188,040	811,062,755	129,575,222	84.0%
Sterling Heights	4	129,699	384,904,232	98,570,813	74.4%
Ann Arbor	6	113,934	496,770,000	86,061,000	82.7%
Dearborn	8	98,153	489,475,591	58,272,507	88.1%
Clinton Township	10	96,796	114,226,069	8,962,719	92.2%
Livonia	9	96,942	195,105,000	(8,829,000)	104.5%

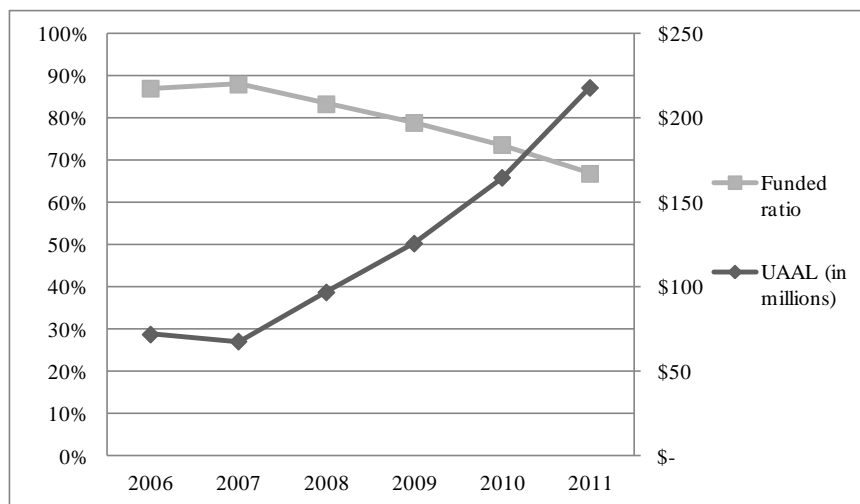
Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports<sup>1</sup>

The city of Lansing’s combined pension UAAL for the two systems has increased from \$72 million in 2006 to \$218 in 2011 which was the time of the last actuarial valuation (Exhibit V-7). The funded ratio fell during this time from 87% to 67%. A significant cause of this decrease in

<sup>1</sup> Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

funding ratios was the 2008 stock market decline, the losses of which are amortized over the succeeding five-year period. Because stock market gains in more recent years are also amortized over the succeeding five years, those gains, which will help increase the funding ratio, have not been fully realized.

**Exhibit V-7 Pension Funded Ratio and UAAL**



Source: City of Lansing Comprehensive Annual Financial Reports

Only one community in our comparison communities has a defined contribution plan for current employees (Livonia). Two other communities, Muskegon and Saginaw, have recently implemented a defined contribution plan for new hires after a certain date. This is a common way for employers to transition the workforce to defined contribution plans to control long-term costs.

### **Other Post-Employment Benefits**

The city contributes to other post-employment benefits (OPEB) for employees who are eligible to receive pension benefits from the Employees Retirement System and from the Police and Fire Retirement System. The city also contributes to a Voluntary Employee Beneficiary Association (VEBA) trust fund. Based on the most recent actuarial valuations, the city of Lansing incurs the second-largest unfunded OPEB liability out of the ten largest cities in the state with \$431 million (Exhibit V-8). The city, despite consistent, albeit significantly lesser-than-needed, prefunding contributions for longer than most other communities, also has the fourth-lowest funded ratio at 9.9%.

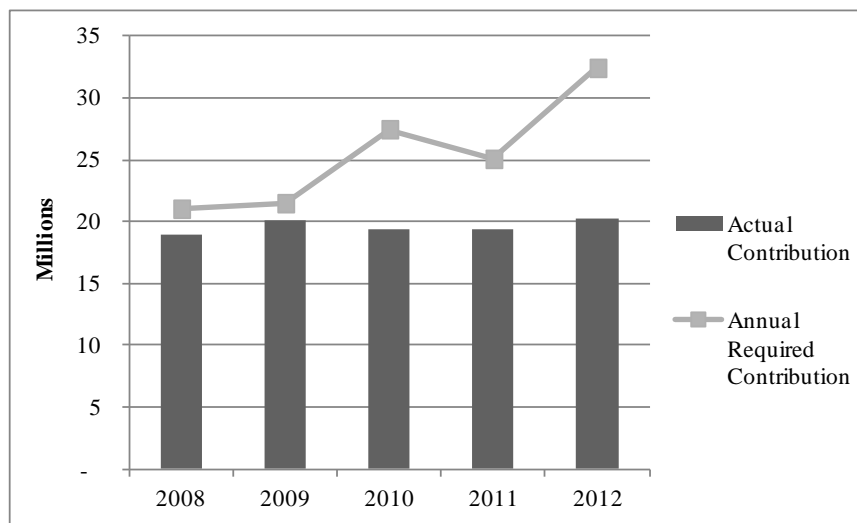
**Exhibit V-8 OPEB Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability**

<u>Jurisdiction</u>	<u>Population</u>		<u>Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>
	<u>Rank</u>	<u>Census</u>			
Detroit	1	713,777	\$ 5,718,286,228	\$ 5,718,286,228	0.0%
<b>Lansing</b>	<b>5</b>	<b>114,297</b>	<b>479,135,588</b>	<b>431,776,738</b>	<b>9.9%</b>
Flint	7	102,434	366,832,597	366,832,597	0.0%
Warren	3	134,056	322,084,682	280,243,704	13.0%
Ann Arbor	6	113,934	249,844,000	162,184,000	35.1%
Grand Rapids	2	188,040	168,237,016	161,433,227	4.0%
Dearborn	8	98,153	191,997,781	156,323,331	18.6%
Sterling Heights	4	129,699	178,487,654	139,812,173	21.7%
Livonia	9	96,942	153,223,000	92,862,000	39.4%
Clinton Township	10	96,796	65,453,220	44,939,735	31.3%

Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports<sup>2</sup>

As discussed earlier, the proportion of the ARC that the city has paid to cover OPEB has declined over the last five years, from 90% in 2008 to only 62% in 2012. This has mainly been attributed to the budget constraints that were described in section II. In order to cover other expenditures, the city reduced its contributions relative to the ARC.

**Exhibit V-9 Other Post-Employment Benefits - Actual vs. Annual Required Contribution**

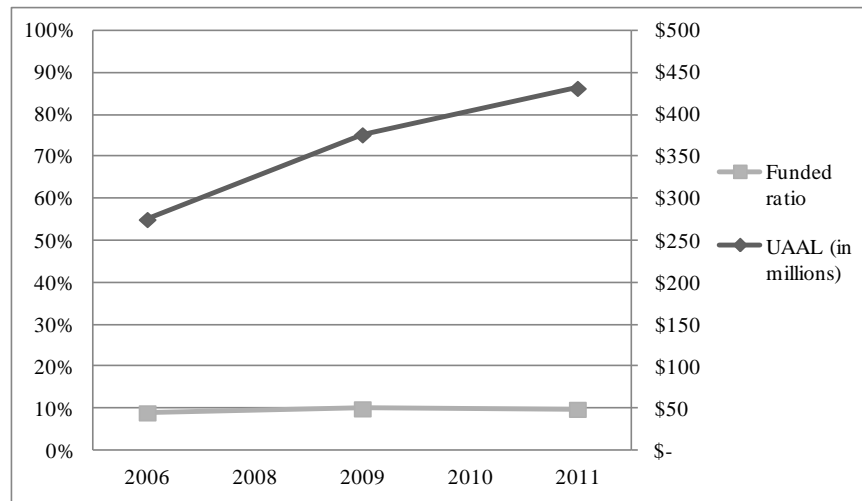


Source: City of Lansing Finance Department and Comprehensive Annual Financial Reports

<sup>2</sup> Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

Since the actuarial valuation in 2006, the city's unfunded OPEB liability has increased by almost 60%, from \$276 million to \$432 million. The city's contributions levels have maintained funding at around 10%. Unfunded liabilities can be addressed via increased contributions from employees or employers or through changes in the benefit structure.

**Exhibit V-10 Other Post-Employment Benefit Funding Status**



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

## **VI. COMMITTEE RECOMMENDATIONS**

### **Short Term Subcommittee**

This section is intended to summarize the deliberations of the Lansing Financial Health Team (LFHT) - Short Term Subcommittee. The LFHT was appointed by the mayor of Lansing in the fall of 2012 to begin to provide recommendations to address the short and long term financial stress facing the city government. These recommendations are designed to address the short term deficit facing the city as well as put a down payment on the need to address long term solvency challenges.

The first order of business is determining what services the city must provide and how efficiently they can be provided. It is only after such evaluation that consideration should be given to increasing costs to taxpayers. In the longer-term, the city should regularly examine all of its service delivery mechanisms and determine on a business case basis how they can most efficiently be provided. Property management, assessing, sign shop, street sweeping, billing, and collections are all examples of areas where the city should evaluate the cost/benefit of providing these services with its own staff or through contracts with others.

#### **FY 2014 Budget Recommendations:**

1. There must be a continued and increased commitment to aggressively reducing the city's unfunded pension and retiree health care liabilities. Thus, future projection of city revenue and expense gaps should acknowledge these liabilities. Additionally, the FY 2013-14 budget should include an additional financial commitment of \$1 million for prefunding retiree health care. This is only a small percent of what would be needed to fully fund the city's pension and OPEB obligations and this should be increased over time. The city should also work to negotiate changes in benefit plans with its unions to address those costs.
2. The city must aggressively pursue the use of technology to improve productivity and improve services. The current level of financial commitment is inadequate, and the FY 2013-14 budget should include a significant additional appropriation to improve the level of technology used in the city. It is recommended that a minimum \$1 million investment be made in information technology. Additionally, the city should create a new Chief Information Officer (CIO) position at the cabinet level which is expected to cost \$200,000 in total compensation (including benefits). The city should work with the School District to examine the possibility of jointly hiring a CIO to serve both groups. Although this is a substantial investment now, it will make the government more efficient and provide better services, and will save money in the long run.
3. The city's financial reserves are at dangerously low levels. The city should increase these reserves by at \$1,000,000 in order to have funding for emergency situations.

4. The city should undertake a facility study in order to determine which facilities are necessary and which can be sold. This should be undertaken in conjunction with the school district. It is estimated that this study will cost \$100,000 but that it will result in long term cost savings.
5. A comprehensive fee study for all city services should be undertaken and fees should be set at a level to fully fund each service or a conscious decision should be made to partially subsidize the service. It is estimated that this will cost approximately \$100,000.
6. The city should determine the amount of general tax subsidy that is made to support recreational programming, and should take all actions necessary to eliminate that subsidy. There are many other organizations that provide such programming. As in human services, while recreational programming is important, it is not essential for the city to provide when its available resources dictate that it must focus on its essential services of police, fire, roads, and utilities. Eliminating the recreational program General Fund subsidy will result in savings of \$1,000,000. The Subcommittee recommends a three-phased in approach so the FY 2013-14 savings will be \$300,000.
7. The city should take all actions necessary to eliminate the more than \$500,000 annually budgeted as a subsidy for cemetery operations. These actions could include total outsourcing of operations or the sale of the properties. There are numerous competent providers other than the city government. The city currently operates the three cemeteries, for which current charges for services only cover 30-40% of expenditures. The Subcommittee recommends that the city consider outsourcing operations or selling the property. However, the potential negative impacts of outsourcing should be identified before it is implemented. For example, in addition to providing burial plots, private cemeteries market for business by providing services that city cemeteries do not provide, such as sale of monuments and other services. The potential increase in competition may negatively affect monument companies, funeral homes, etc. if the city cemeteries were managed by or sold to private entities.
8. The city's funding for human service agencies as reflected in the current ordinance should be phased out as there are numerous other providers and funders. Support of human services by a municipal entity, while valuable and important, is not an essential service in comparison to police, fire, roads, and utilities. The city currently designates 1.25% of general fund revenue annually to support Lansing area human services organizations. The city had budgeted \$1,260,000 to support approximately 60 agencies for FY2013, with contributions ranging from \$2,000 to \$120,000. Programs funded through this subsidy include homeless shelters, child care, food, clothing, housing assistance, transportation, senior citizen assistance, and legal assistance for indigents, as well as other life skills, employability development, and

health programs. However, it is believed that in the absence of this subsidy, community organizations would fill in the gaps of service provision. This is not the case for fire, police, and infrastructure maintenance. For the FY2014 budget, the Subcommittee recommends to eliminate the 1.25% set-aside by ordinance and instead consider including 75% of that amount (equivalent to 0.9375% of General Fund revenue) in the budget with the condition that allocation decisions be made in comparison to other demands for city services. This change will result in savings of \$275,000, and eliminating the mandatory set-aside will require human services to compete with all other budget needs.

9. The current schedule of reduced hours of work for non-emergency/non-24 hour personnel should be made permanent, but any further reductions should be made only if an evaluation of impact has concluded that service to the public is not reduced. This change is expected to reduce costs in the General Fund budget by \$1,000,000. In addition, a study should be undertaken to determine how much cost savings the city would incur if it instead laid off an equivalent number of employees rather than having reduced work hours for the current number. If the savings are significant and it is feasible to do, this should be implemented instead of the current schedule of reduced work hours.

10. The Building Department Fund is responsible for building, plumbing, electrical, mechanical, and plan review and inspections. Subsidies for building safety from the General Fund have typically been \$200,000 - \$500,000. During FY2013, the city raised user fees for permits, which has helped reduce the anticipated subsidy to \$200,000. Thus, eliminating the subsidy altogether would result in a projected savings of \$200,000.

11. The city should take all actions necessary to eliminate the tax subsidy for golf courses. While improvement has been made, the fact remains that there are many golf courses in this area that operate without a general tax subsidy. These include both private clubs, such as the Country Club of Lansing, and privately-owned courses that are open to the public, such as Forest Acres, College Fields, and a suite of four courses owned by Hawk Hollow Golf Properties.

The Golf Fund consists of all revenues and expenditures related to the Groesbeck Golf Course and the Sycamore Driving Range. Previous efforts to control costs include closing two golf courses in 2008 and transferring management of the driving range to a non-profit organization. In FY2013, the city transferred management of marketing and concessions for the Groesbeck Golf Course to the Lansing Entertainment and Public Facilities Authority (LEPFA). However, the Golf Fund will still receive a \$350,000 subsidy from the Parks Millage Fund in order to cover expenditures; the Golf Course seems unable to compete with private courses in the area because it does not have a banquet facility. The Subcommittee recommends selling or transferring management of these entities which may require special attention to timing so that the course does not fall into disrepair and sell at a lower profit.

12. Consolidation of services among agencies of the city with a specific focus on the Board of Water and Light should be done. This change alone is estimated to save the General Fund budget approximately \$100,000.

13. Funding for fire services should be examined to determine that the current level of funding is necessary to provide an adequate level of service. It is estimated that staffing changes can be undertaken with an acceptable impact on services. In addition, consolidation efforts with other fire departments within the region should be pursued. A recent study undertaken by Plante Moran found that fire department collaboration is an attractive option for all communities that participated in the study, including Lansing. The study found that economies of scale can exist within contiguous communities for fire and EMS and that, through collaboration, municipalities can deliver improved fire protection and EMS services at a reduced cost. Based on these findings, the Subcommittee recommends a reduction in fire department funding of \$2,000,000.

14. It is estimated that police funding reductions can be undertaken with an acceptable impact on services. According to the FY2011 report from the Michigan Local Government Benchmarking Consortium, the city's police department costs per resident and per full-time equivalent (FTE) officer are 35% and 20% higher than the sample average, respectively. Based off of the 2011 data, the city would need to reduce its expenditures by about \$7,900,000 to match the average costs per resident or by about \$6,000,000 to match the average costs per FTE officer. The city also has 10% more FTE officers per 1,000 people served than average, but 2.5% fewer calls for service. However, efforts to match the performance of comparison municipalities should be implemented gradually since the city's response time to both emergency and non-emergency calls are greater than average, and sweeping cuts may negatively impact the quality and efficiency of police services. In order to provide the police department with a realistic starting point for developing innovative ways to improve efficiency without making major compromises in service quality, the Subcommittee recommends a \$1,000,000 reduction in police department funding, which is 3% of its FY2013 budget.

15. Efforts to contain health care costs must continue. Thus, proposed changes to health care for police should be pursued aggressively and included in the budget, with explicit offsetting reductions if changes are not accomplished. This includes a recommendation that active police union employees adopt a health care benefit plan that complies with the PA 152 hard cap, a year before their contract expiration, which will save the city \$700,000.

16. Based upon the comprehensive fee study, it is estimated that the city should be able to raise an additional \$175,000 from increases to other fees that have not been adequately increased over time.



17. The city and the Board of Water and Light should move to a user fee concept to pay for the use of hydrants and street lights. It is standard practice in many communities to charge the users for these services. The projected annual increase in fees will be approximately \$45 and \$1,394 for residential and commercial BWL customers, respectively. However, because property values and thus property taxes have diminished drastically since the Great Recession, this fee increase will likely be offset by the reduction in other taxes felt by city residents and business owners. For example, the property tax levied on a property with a taxable value of \$70,000 is projected to decrease by \$31. These changes will result in a permanent reduction in General Fund expenditures that is estimated to be \$5,500,000.

18. The Lansing Entertainment and Public Facilities Authority (LEPFA) manages the Lansing Center, the Lansing City Market, and the Cooley Law Stadium. The General Fund currently transfers \$1,100,000 to LEPFA and \$500,000 to the stadium to assist in covering operating costs. Current debt service for the stadium ends in FY2014, which may reduce expenditures, but will likely be replaced by new debt for capital improvements. The city's subsidy of the Lansing Center is unsustainable. However, if the city were to cease funding for the Lansing Center it would likely shut down, divesting the downtown of a venue for attracting conventions and commerce. There are alternative funding sources that should be explored to keep the convention center open.

Currently, the Lansing Center indirectly receives bed tax support through funds disbursed by the Greater Lansing Convention and Visitors Bureau (GLCVB), which receives 80% of the bed tax receipts that Ingham County collects under Public Act 263 of 1974. Under Public Act 180 of 1991 (PA 180), the city of Lansing is authorized to levy a bed tax of no more than 1% of gross receipts or a car rental tax of no more than 2% of gross receipts for supporting sports stadia and convention facilities, which is subject to voter approval. The 425 tax-sharing agreement to conditionally transfer the Capital Region International Airport from DeWitt Township to the city of Lansing may facilitate this recommendation since it allows the city to levy and collect taxes on this property. The Airport serves as a source of car rental business and thus, a potential source of car rental tax revenue. However, according to the sharing agreement, the city may be required to remit 50% of such revenues to DeWitt Township.

Other cities have funded their convention centers through similar means. For instance, the COBO Center in Detroit, MI relies on a bed tax levied by Wayne, Macomb, and Oakland Counties in order to subsidize bonds sold for an expansion to the facility. The convention center in Columbus, Ohio is funded by the county. The San Diego Convention Center is undergoing a \$520 million expansion that is being funded by hotel taxes (\$35 million per year), the city (\$3.5 million per year), and the San Diego Unified Port District (\$3 million annually for 20 years).

In accordance with existing policy, the Subcommittee recommends that the city pursue an addition to the bed tax and/or levy a car rental tax that will raise \$100,000 and reduce the General Fund subsidy for the Lansing Center. The city should take into account potential impacts on smaller inns and other issues raised when Wayne County proposed these taxes in 1996. Further, the Subcommittee recommends that the city move toward completely eliminating the General Fund subsidy of the Lansing Center over the next few years.

The following is a summary of the short term committee recommendations:

	Deficit Projection	\$9,000,000
	New Investments:	
1.	Additional Prefunding of Legacy Costs	1,000,000
2.	Information Technology and CIO	1,000,000
3.	Financial Reserves	1,000,000
4.	Facility Improvements	100,000
5.	Comprehensive Fee Study	100,000
	Investments Total	\$3,400,000
	Total Deficit Plus New Investments	\$12,200,000
	Proposed Savings:	
6.	Phase Out Recreational Programming Subsidy	\$300,000
7.	Eliminate Cemetery Subsidy	\$500,000
8.	Phase Out Human Services Support	\$275,000
9.	Make Permanent a 4 1/2 Day Work Week	\$1,000,000
10.	Eliminate Building Inspection Subsidy	\$200,000
11.	Eliminate Golf Subsidy	\$350,000
12.	BWL Administrative Consolidation (GF Cost Savings)	\$100,000
13.	Reduce Fire Funding	\$2,000,000
14.	Reduce Police Funding	\$1,000,000
15.	Police Health Care Restructuring	\$700,000
16.	Other Fee Increases	\$175,000
17.	BWL Revenue Adjustment (GF Cost Savings)	\$5,500,000
18.	Car Rental and Bed Tax Increase (Reduce Lansing Center Subsidy)	\$100,000
	Total Proposed Savings	\$12,200,000

## **Long Term Subcommittee**

The city lacks the ability to implement many of the following recommendations on a unilateral basis. Many recommendations relating to the terms and conditions of employment of city employees will require negotiations through the collective bargaining process and agreement with representatives of city employees. Some recommendations may be subject to binding arbitration under state law before implementation. In addition, the Michigan Constitution prohibits diminishing or impairing accrued pension benefits.

### **Pension Systems and Benefits**

1. Some city employees do not currently participate in Social Security. The city and its employees should move toward 100% participation in the Social Security program and then reduce pension costs incurred by the city to offset non-participation in Social Security.
2. The city should conduct a thorough evaluation of its defined pension systems and implement changes for both current and future city employees. The efforts should focus on reduced costs, best practices, and the financial sustainability of benefit levels. As part of this process, the city and its employees should consider all of the following:
  - a. Adjusting the multiplier used in determining the pension benefit based upon the age of an employee at retirement;
  - b. Pension multipliers should be evaluated with other well-managed defined benefit pension systems in Michigan and elsewhere to identify best practices in establishing multipliers.
  - c. Dissuade spiking in pension benefits by basing pension benefit on average compensation over a period of 5 or more years, or over the total period of employment, rather than final salary;
  - d. Increase eligible retirement ages consistent with other public and private sector employers;
  - e. Evaluate the financial viability of moving new city employees to a defined contribution retirement benefit and/or offering such an option to current employees;
  - f. Evaluate the financial viability of moving new city employees to a hybrid defined benefit/defined contribution retirement plan and/or offering such an option to current employees; and
  - g. Evaluate whether the administration or investment responsibilities for the pension systems, or both, could be more efficiently and effectively performed by others rather than by current city boards and personnel. This evaluation should include evaluation of both a potential transfer to the Michigan Municipal Employees' Retirement System, as has successfully occurred in many other Michigan communities, or to another governmental entity, such as the city of Kalamazoo, which has a strong performance track record. Other cities moving from city-administered systems have realized substantial savings.

## **Retiree Health Care**

3. Currently city retirees receive a health care benefit during retirement established on the date of retirement, requiring the city to administer of different health care plans. The city should move to a single health care plan for all city retirees receiving health care benefits that is consistent with the standard plan provided to active city employees.
4. Move to a uniform schedule for vesting in retiree health care benefits, consistent with best practices in other communities..
5. Consistent with other governments and the private sector, the city should move to a defined retirement health care benefit contribution for retired city employees, at a minimum for new city employees. This may take the form of a lump-sum payment or an annual fixed contribution to a health savings account. Closing the retiree health care plan for new employees will result in an immediate actuarial savings for the city. The Commission on Retiree Healthcare Benefits for the City of Chicago recently recommended that the city end the provision of health care benefits to retirees in 2014 when the employees have the ability to purchase coverage through the Illinois State Health Exchange. The city should conduct a similar analysis for Lansing.
6. After moving to a defined retirement health care benefit, the city should consider whether the issuance of bonds to finance the city's significant unfunded obligations for retiree health care is financially advisable.

## **Health Care Benefits**

7. When city employees are involved in auto accidents, the city should require that primary health coverage be provided through auto insurance and not the city's health care plan.
8. The city should implement an aggressive and on-going program to audit dependents of city employees to assure only those eligible receive health care benefits.
9. The city should require implementation of a program to incentivize employee with health care coverage under a plan provided by the employer of his or her spouse to obtain health care benefits from the spouse's plan, where the city hold-harmless the city employees from any reduced benefits under the spouse's plan.
10. The city should move to a uniform health care benefit plan with a simplified plan design for all city employees. The plan should include a traditional self-insurance option, a health maintenance organization option, and a high deductible option supplemented with a health savings account.
11. The city should actively participate in the activities of the Michigan Municipal Services Authority (MMSA) to establish a statewide health insurance pool for government employees through its virtual health and wellness initiative. When operational, this program has significant potential to provide cost savings to the city and its employees.
12. When evaluating health insurance plan changes, the city should include the economic impact on the city when any change in providers.

13. The city should implement new health and wellness initiatives to reduce health care costs. The city should attempt to implement with another city a health and wellness challenge competition to incentivize behavior like that currently underway between the city of Chicago, Illinois and the city of San Antonio, Texas. This competition was supported by a \$5 million grant from a private foundation.

14. The city should contract with a third party to review claims and manage costs under the city's self-insurance program.

15. The city should adopt more aggressive drug formulary management and drug utilization protocols, improved prior authorization and other demand management tools.

### **Workforce**

16. With a recommendation by the Short Term Solutions Group that the current reduced work schedule for city employees be made permanent, it is recommended that in the longer term this change be fully recognized as structural reduction in the number of city employees. Employees should be restored to a full work schedule but the number of authorized city employees should be reduced accordingly. A reduced city workforce reduces the space needed in City Hall.

### **Technology**

17. The city should participate in the Michigan Municipal Services Authority's initiative to create a cloud-based financial management system for local governments.

18. The city should move to a cloud-based office software suite such as Microsoft Office 365 or Google Apps for Government. The city of Chicago reports that its move to Microsoft Office 365 will save \$1.3 million over 4 years. Chicago Public Schools indicates that its move to Google Apps will save \$2 million per year.

### **Facilities**

19. Lansing's City Hall was built and designed for a different era when services provided in a different way involving many more employees. Given the age of the building and many of its vital systems and the likely need for significant repairs and updates, the city should immediately undertake a study as to whether city services could be more effectively delivered from another location, financed in part by the sale of the current City Hall property. Any new location should be designed not just to serve the needs of the city but also function as a center for multi-jurisdictional and regional governance and cooperation, including, but not limited to, enhanced coordination with the Lansing School District, Ingham County, and others in the delivery of governmental services.

### **Efficient Provision of Non-Core Functions**

20. The city should undertake an effort to determine if certain non-core functions currently performed directly by city employees could be instead performed more efficiently by the private section. In evaluating costs and benefits, city employees should be afforded the opportunity to bid on work, and the impact of moving functions outside of city government on legacy costs

such as post-retirement benefits should be analyzed. Areas for initial consideration should include:

- Parking;
- Waste hauling;
- Ambulance / Emergency Medical Services;
- Information Technology; and
- Accounting services.

### **Maximizing City Revenue**

21. The city of Lansing is the seat of state government under the Michigan Constitution. As such, the city should actively encourage the State to locate its employees within the city. The city should maintain an inventory of properties within the city that could meet the needs of state department and agencies and should regularly interface with state officials on the state's future needs.

22. The city should authorize and actively seek advertising on city buildings, property, vehicles and websites to generate additional revenue to provide vital services to Lansing residents.

23. The city currently provides law enforcement and fire protection services to public educational entities within the city that provide no financial support to the city to support those services. The city should pursue authorization to assess a public safety fee on students attending public institutions of higher education within the city to cover the costs of those services. The state of Michigan, as an example, provides the city with fire protection grants to partially cover the public safety costs incurred by the city in protecting state employees and facilities.

24. The city should develop an initiative, possibly in partnership with the Ingham County Land Bank, to encourage college, university and law school students to purchase and invest in housing in the city of Lansing.

25. The city should develop an initiative to encourage trade associations and other similar organizations interacting regularly with state government to locate at the seat of state government, in the city of Lansing.

26. The city should modify its income tax to allow collection of the tax by the state on behalf of the city, eliminating a separate income tax withholding and filing process for the city.

27. The city should support state legislation to move to a formula for distributing state revenue sharing to local governments based upon population density rather than a per capita distribution.

## **Regional Subcommittee**

Regional cooperation, collaboration and consolidation in the Lansing metropolitan area has been a topic of discussion, as well as action, for decades. Today, however, regionalism has become a more urgent imperative, driven by unprecedented financial pressures on local units of government to provide public services in the most efficient, cost-effective manner possible.

Beyond providing essential public services more efficiently, a key dimension of regionalism is sharing the benefits of economic development between neighboring jurisdictions. One of the Lansing region's first and most successful regional initiatives was the P.A. 425 tax-sharing agreement between General Motors, the city of Lansing and Delta Township for the construction of GM's Lansing Delta Assembly Plant.

The Lansing-Delta agreement became the template for subsequent 425 agreements successfully negotiated between Lansing and Alameda Township for the construction of the Jackson National Life headquarters, and between Lansing and DeWitt Township for the creation of the Next Michigan Development Zone (aka "Aerotropolis") at Capital Region International Airport.

Another recent regional initiative is the shared fire services study commissioned by the cities of Lansing, East Lansing and the neighboring townships of Lansing, Delta and Delhi. Lansing and East Lansing, entering their second year of a shared fire chief, are systematically evaluating the prospects for greater coordination between their fire departments, facilitating the process of synchronizing two similar but different organizations. All of the regional partners in this important endeavor have our strong support and encouragement to continue moving forward along the path outlined in the fire study, including the possible merger of one or more existing departments if it means that fire protection can be provided more efficiently and cost-effectively.

The Subcommittee applauds these efforts, and thanks the leaders in both the public and private sectors who are pursuing them. We recognize that regionalism is often complex and challenging, even under the best of economic conditions. Yet there is still more to do as the economic imperatives of our times and the broken model of municipal financing in Michigan push us toward finding new ways to provide essential public services more efficiently and cost-effectively.

The Subcommittee spent a number of months assessing the prospects for future regional initiatives between Lansing and neighboring jurisdictions. Perhaps our most important conclusion is that this vital work must continue. Toward this end, the Subcommittee encourages Mayor Bernero to join with other regional leaders in establishing a forward-looking, ongoing regional initiative to study the potential and evaluate the business case for future regional initiatives, including the possible regional consolidation of key public services or even jurisdictions.

In the course of our review, the Regional Subcommittee interviewed numerous regional leaders from both the public and private sectors. Productive and insightful conversations were held on a wide range of topics, many of which are encapsulated in the specific recommendations of the Subcommittee.

The Subcommittee has identified several areas in which the region can better work together to provide more efficient, cost-effective services that maintain or even enhance current service levels. The subcommittee met with representatives from the Lansing School District, Clinton County and Eaton County to discuss ways that the city of Lansing can work with the other entities to improve efficiency.

The Lansing School District is looking to create a strategically-located, consolidated secondary school campus. They would also like to right-size their office facilities. They welcome a partnership with the city of Lansing to tackle these issues.

The Lansing School District also has a need to streamline in three areas: operational support, instructional programs, and infrastructure. Operational support includes services such as food services, a regional kitchen, custodial services, and grounds maintenance. Instructional programs include special education and career technology education. Infrastructure areas include personnel, payroll and benefits, procurement, information technology, legal counsel, and public relations.

The two most promising ways in which the Lansing School District and the city of Lansing can cooperate are in the sharing of an administration building and an information technology delivery system with a joint Chief Information Officer.

Clinton and Eaton Counties are also open to regionalism. However, they believe that regionalism should be approached through small steps. Many residents in Lansing suburbs do not see their survival being dependent on the city of Lansing, even though these areas are dependent upon and driven by the success of Lansing.

Business leaders in the city of Lansing feel that Lansing lacks a unified vision for regional cooperation and that Lansing's current financial situation must be resolved in order to gain the support and trust of outlying areas.

The Regional Subcommittee identified the following as areas that are ripe for further exploration:

1. In accord with the Long Term subcommittee recommendation relative to City Hall, the city and school district should explore the possibility of establishing a combined facility for municipal offices and school offices.
2. The city and school district should collaborate on a shared technology upgrade and hire a joint Chief Information Officer (CIO).



3. The city and school district should explore additional areas of collaboration, including key operational areas and infrastructure needs where economies of scale and cost-savings can be obtained, such as personnel, procurement, IT, public relations and legal counsel.
4. District court functions for the city are currently housed within City Hall. The city should support state legislation combining the three separate district courts in Ingham County into a single county-wide district court, allowing the elimination of one or more district judgeships within the county through attrition. A similar consolidation was recently and successfully implemented in Kalamazoo County.
5. The city should continue to work toward greater cooperation, collaboration and possible merger of the Lansing and East Lansing Fire Departments, as well as other local jurisdictions, in accord with the regional Fire Services Study. In the interim, the city should reorganize the delivery of Lansing fire services to facilitate the establishment of a regional authority for the provision of such services with East Lansing and other communities in the region. Area business and government leaders have a particular interest in the negotiations with Lansing fire unions and bringing staffing and cost more in line with regional standards.
6. The city should consider a service agreement with the county sheriff for the operations of the city's detention facilities and engage in a longer-term evaluation of establishing a consolidated courts and detention facility that would serve the major communities of the Lansing region.
7. To more efficiently deploy law enforcement assets, the city should evaluate joining the Courts and Law Enforcement Management Information System (CLEMIS) operated by Oakland County and effectively serving communities throughout Southeast Michigan.
8. Related to the Long-Term subcommittee recommendation concerning the efficient provision of non-core services by private entities, the city should also undertake an effort to determine if core and non-core functions could be performed more efficiently by the public sector on a regional basis.
9. The city of Lansing should seek state legislation authorizing a new form of agreement for the conditional transfer of land under 1984 PA 425. Existing 425 agreements between the city, Jackson National Life and Alaiedon Township, and between the city, General Motors and Delta Township, greatly benefit the city, neighboring jurisdictions and the companies. State law should be amended to allow the city to enter into a new form of agreement with the Director of the Department of Technology, Management and Budget (DTMB) to allow property such as the state's Secondary Complex to be conditionally transferred to the city.

10. City assets with regional benefits should be funded on a regional basis. For example, both the Lansing Convention Center and the Thomas Cooley Stadium benefit communities and residents throughout the region, but direct operational support is provided only by the city. Under state law, convention centers in both Detroit and Grand Rapids are operated by regional authorities. The city should work to amend state law to provide Lansing with the same tools.
11. The city should fully explore moving parks and recreation functions to a regional or multi-jurisdictional entity. Many city recreational resources, such as the River Trail, are regional resources benefitting the entire region. This effort should be supplemented by a formalized park adoption program in partnership with the private and nonprofit sectors.
12. The Regional Subcommittee recommends that the Mayor establish an ongoing regional initiative to systematically evaluate the potential for regional cooperation, collaboration and consolidation, and to build the business case for specific measures that would regionalize public services where there are demonstrated cost efficiencies and/or service level enhancements. The initiative will require staff support from one or more of our major institutions of higher education, or another research-based organization that focuses on the revitalization of urban core communities. The initiative will also require funding for the research and evaluation phase. Significant financial support may be available from the state of Michigan's Competitive Grant Assistance Program (CGAP), which seeks to assist communities in evaluating and implementing regional solutions to the challenges of providing robust public services in an era of limited resources, or from private foundations in the form of grants.

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